WHAT MARKET COURSE NOW

The MAGAZINE of WALL STREET
and BUSINESS ANALYST

EPTEMBER 29, 1945 50 CENTS

CORPORATE EARNINGS TRENDS DURING TRANSITION
By E. A. Krauss

OUR NEW POSITION IN WORLD TRADE
— THE WAY TO 60 MILLION JOBS
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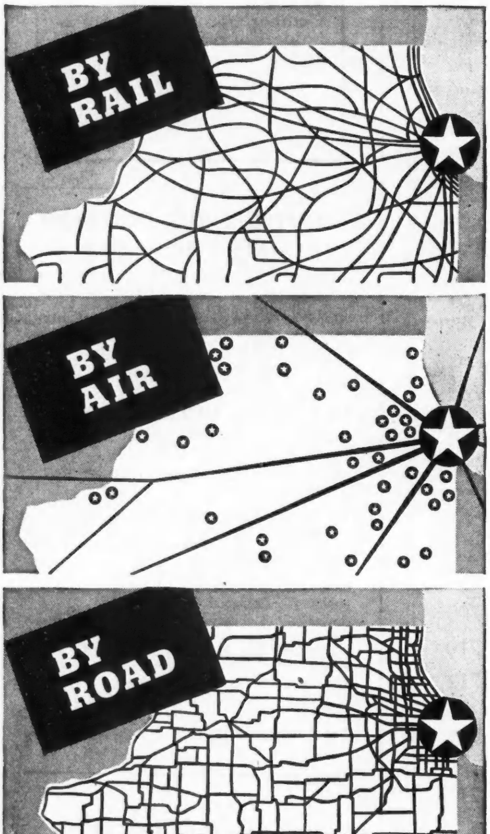

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THE MAGAZINE OF WALL STREET

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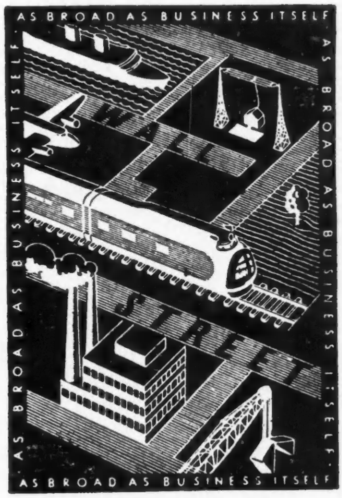


The Trend of Events

THE LABOR CRISIS . . . The peremptory demands for drastic pay increases made on the automobile industry by organized labor have thrown the nation into its first full-fledged labor crisis since the end of the war. At a time when labor and industry alike should be straining every effort towards quick resumption of civilian production, to swing into such production on as large a scale as possible, American industry is threatened with nationwide paralysis.

The showdown for the automobile industry is immediate. Similar demands on the steel industry are impending. Demands for higher wages in other industries will doubtless follow, and invariably these will be industries vital for reconversion on the theory that basic industries essential for reconversion are the best targets. The outcome of these disputes, unless a good dose of common sense is injected into their handling, may affect economic condition for a long time to come.

The American industry does not oppose higher wages; the overriding problem is its ability to operate and employ labor if wage rates are increased as demanded. Take the United Automobile Workers' exorbitant demand for a 30% wage boost. Operating efficiency in the automobile industry has nowhere increased to that extent, and management correctly takes the position that corresponding increases in productivity must precede or accompany any rise in wage rates. During the war, labor efficiency in this industry, if anything, has declined, what with production rather than productive efficiency the paramount factor. Moreover, wage rates generally have been raised a good deal. Automobile manufacturers have yet to prove their ability to operate profitably with existing wage and price levels, let alone with higher wages.

Ordinarily, a 30% wage boost, if granted, could be absorbed by passing the higher costs to consumers by boosting prices. At present, no such course is permissible. OPA has ordered selling prices fixed on basis of prewar costs, and its price policy doesn't authorize increases where higher selling prices will result. In short, the wage demands of UAW can be absorbed neither through increased efficiency nor higher selling prices. Most likely, they can be absorbed only by operating at a loss, for the OPA pricing formula does not leave sufficient margin to absorb any such advance in labor costs. It is but natural that the automobile industry will resist such an unreasonable demand to the utmost.

For a time perhaps, 30% higher wages could be paid out of capital savings but it wouldn't be long before a company doing so would be out of business. Even if no operating loss would result, if it were merely a question of elimination of profits, no company could stay in business for any length of time. Fact of the matter is that it will take some time to lift productivity per man hour to justify even partly the sweeping wage boosts that organized labor intends to impose on industry. To make such demands now may rapidly become one of the great threats to successful reconversion.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : 1907 — *"Over Thirty-Eight Years of Service"* — 1945

The critical situation now developing is not merely a matter of what the automobile worker or the steel worker will find in his pay envelope. Either higher wages, if granted, will entail higher prices all around, affecting all consumers, or production will be throttled. In that event we will court serious inflation, for it would mean a scramble for scarce goods among those with the means to pay for them. In either case, it is difficult to see how labor can benefit; it would merely face a higher price scale all around, with no improvement in standard of living.

A NEW TAX PROGRAM . . . Aimed at a balanced budget and systematic debt reduction, the Committee on Postwar Tax Policy headed by Roswell Magill, former Under Secretary of the Treasury, has formulated and recently published a new postwar tax program under which individual taxpayers would bear the brunt of Government revenue collection. Briefly, rates on individual incomes would begin at 15% to 20%, depending on the size of the postwar budget, and range up to 72% reached at the million dollar income level. Corporations would pay a single, flat-rate levy ultimately equal to the lowest rate paid by individuals. The plan proposes a gradual reduction in the corporate income tax from 40% to 35% in the second transition year to moderately lower levels in succeeding years, and finally to the proposed initial personal income tax rate of 15% to 20%.

The program also would eliminate the 3% "normal" tax and partially eliminate Federal and state competition for revenue sources by dropping the Federal gasoline, estate and gift taxes which would be left for the exclusive use by the state governments. Retention of other excise taxes is favored, however, as a means of maintaining the stability of Federal revenues. If the Federal budget cannot be reduced below $22 billion, resort to a Federal sales tax is advocated to maintain budgetary balance, and regular retirement of the national debt according to a prearranged schedule is also foreseen. Like other tax plans recently suggested, the new plan favors outright repeal of the excess profits tax.

On the whole it is a realistic program, one that no doubt would go far to stimulate business and foster prosperity without need for deficit financing. Correctly the framers of the plan stress the important fact that any sound tax program is dependent upon reduction in postwar expenditures, that prudence in Government spending is the key to low taxes. They express their conviction that this will be achieved only if the people are brought face to face currently with the tax burden required to meet these expenditures.

PRICE CEILINGS ON BUILDING . . . The building industry and real estate circles are alarmed over Price Administrator Bowles' program to impose ceilings on virtually every phase of building and real estate activity, that is on prices for old and new homes, on real estate prices, on materials for construction, on painting and paper hanging, on installation of fixtures, on contractors' profits and architects' fees. The demand for housing is enormous but the boom will be short-lived, says the OPA chief, unless we hold construction costs, real estate prices and rents down to reasonable levels.

The question posed by this intention is whether, as some fear, imposition of such far-reaching controls would virtually paralyze the entire home building industry or whether, as Mr. Bowles contends, such controls will assure a healthy building boom of long duration. Offhand, the answer would seem to depend on the price ceilings themselves.

The fact cannot be argued away that as building gets under way, the demand for scarce materials will place terrific pressure upon prices; it is already evident today. Nor can it be questioned that a continued stable price level will be a tremendous spur to home construction just as skyrocketing prices will be a definite deterrent that may severely curtail the boom potential arising from the present shortage of housing. We had some unpleasant experiences with prematurely ending building booms before, mainly due to excessive prices, and it would do no harm to attempt to prevent a repetition. To do it effectively, labor costs, too, need watching; it is another important source of trouble that needs attention.

Indubitably, unrealistic ceilings will be harmful, for they will throttle production, the one reliable preventive of price inflation. But if ceilings are adequately covering costs, and allow for reasonable profits, there can hardly be any question of harmful effects if home building — for an initial period — is put under a "price harness." By thus stabilizing building costs, building activity will not only be stimulated but will provide more much-needed housing at reasonable cost and incidentally, more and longer employment in the building trades. Far from hobbling building activity, we believe temporary and reasonable restraints now could pay enormous dividends later.

NO EARLY STERLING DEVALUATION . . . Despite the recent weakness of sterling futures contracts and rumors of impending sterling devaluation, the prospect is slim of any early move in this direction. Whether sterling is considered overvalued or not at the current pegged price of $4.02½ — and it probably is —, the fact remains that Britain can hardly afford cheapening its currency now. Also, there is no way to determine at this time the proper level at which the sterling-dollar rate should be fixed.

For one part, British industry needs large supplies from abroad which would cost more if the pound were devalued now. At the same time, Britain will have no difficulty in finding ready markets for any export surpluses without depreciating her currency to win markets. To devalue now would deprive Britain of part of her export proceeds and would boost the cost of imports from all but sterling bloc countries.

Given reasonable assistance, Britain no doubt could adjust her economy to the present sterling quotation, particularly during the period immediately ahead when imports will be large and exports perforce limited by capacity to produce and by heavy domestic demands. This is well realized in Britain, and therefore there is no real sentiment for early devaluation. Once the aforementioned factors begin to lose force, however, sentiment may veer the other way. No doubt the question will be thoroughly ventilated during the Anglo-American conversations.

As I See It!

BY ROBERT GUISE

THEORY AND PRACTICE

SINCE September 11, the Council of Foreign Ministers meeting in London has been grappling with an array of European problems left in the wake of war. The fundamental difficulties raised by these, the lack of progress and the cleavages that developed between the western powers and Soviet Russia poignantly demonstrate that termination of military hostilities has not brought to Europe a feeling of security or hope of political and economic stability. Right along, every meeting of the foreign ministers of the Big Five has disclosed a baffling inability to get together. According to press reports, the clash between Russia and the western democracies is such that the parley's closing sessions were marked by intense gloom and disappointment, if not despair, only Russia showing signs of satisfaction.

To all intents and purposes, the meetings got nowhere. They were meant to serve as a series of peace conferences, discussing the terms of peace with Italy and other Axis satellites — Finland, Hungary, Rumania and Bulgaria. Actually so far, they merely served to highlight the many difficulties facing any attempt to translate into terms of daily international living the ideals and principles espoused by the United Nations Organization. As an important by-product, they also demonstrated the fact that secret diplomacy and power politics are far from a thing of the past.

Above all, the conversations at London have brought to light that Soviet Russia is definitely seeking a hold in North Africa—an aspiration foretold in this column many months ago. Not only is she seeking an individual trusteeship of Tripolitania, **Italy's colony facing the Central Mediterranean, but** she has also signified her interest in Italy's Red Sea colony of Eritrea. Obviously Britain, seriously menaced during World War 2 by Axis control of these areas, cannot view with equanimity such claims of Russia which would thus gain the right to interfere in the affairs of North Africa. But Soviet interest is not limited to North and East Africa; it also extends to the Dodecanese Islands—not subject to the trusteeship formula. While agreeing that these should not be returned to Italy, Russia has failed to consent to their return to Greece. Whether this is a forerunner of a Russian demand to a Dodecanese base remains to be seen. The attitude certainly does nothing to ease the strain between Russia and Britain over Greece whose Government for some time has been under sharp Soviet attack.

The fate of Trieste and the Istrian Peninsula proved another troublesome problem, since Marshall Tito's demand for the Adriatic port and its hinterland not only arouses sharp Italian opposition but also is viewed with anxiety by America and Britain who cannot but consider it as an entering wedge for Russian expansion to the Adriatic. Altogether, the London conversations have starkly revealed a Russia pushing boldly into the Mediterranean and towards its exits, well on her way to become a Mediterranean power. Her demands made under the cloak of security requirements fall into a peculiarly imperialistic pattern.

But perhaps the biggest differences have arisen over Russian divergence from American and British views on the question of political freedom in Eastern Europe, in Rumania, Bulgaria and Hungary, all countries with strongly Soviet-influenced governments. The difficulties in each case are the same; neither Britain nor the United States want to sign peace treaties with these Danubian nations until they freely elect Govern- *(Please turn to page* 737*)*

Today's Market In Relation To Investment Values

We believe that overdone speculative optimism very likely will take the market considerably higher in time. Yet even if the 1929 high is duplicated, the percentage from here in the average stock is a fraction of that already realized, as detailed in this article. A watchful eye and continuing selectivity are necessary.

BY A. T. MILLER

THERE are a good many reasons for believing that when speculative over-optimism takes this bull market to its ultimate, and unsupportable, extreme it probably will be at an average level of stock prices very considerably higher than that now prevailing.

Eventual excess is, of course, to be expected of every bull market. There are two ways of looking at it. From the point of view—that used by most technically-minded analysts and practically all traders—there is no excess until the surface symptoms are feverishly manifest in unusually heavy transactions, crowded brokerage boardrooms, a large and rising margin position, etc. These are not now present.

But an organic malady may have set in long before the outward symptoms become emphatic. Thus, it could be said that a market enters the "excess zone" when prices begin to outrun reasonably-defined investment values. Unfortunately, there is no simple formula, or rule of thumb, by which that point can be concurrently determined.

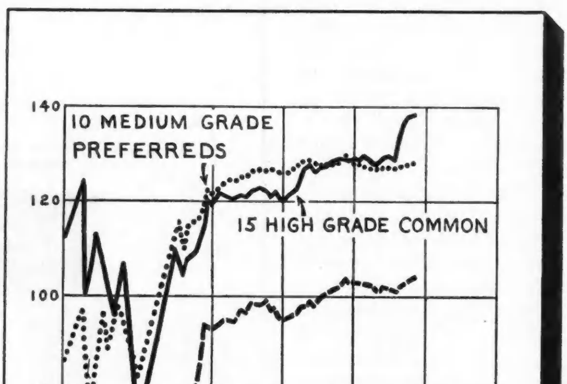
It is easy enough on hindsight, for then the maximum earnings and dividends of the previous upward cycle have become known facts—as is also true of general business activity and commodity prices—against which the unreasonableness of the peak stock market prices can readily be illustrated. We have no doubt that there is an extended period of good business and good earnings ahead; but that is not the pertinent question. The real question—in any debate on investment values versus speculative prices—is just how good the anticipated earnings and dividends will be.

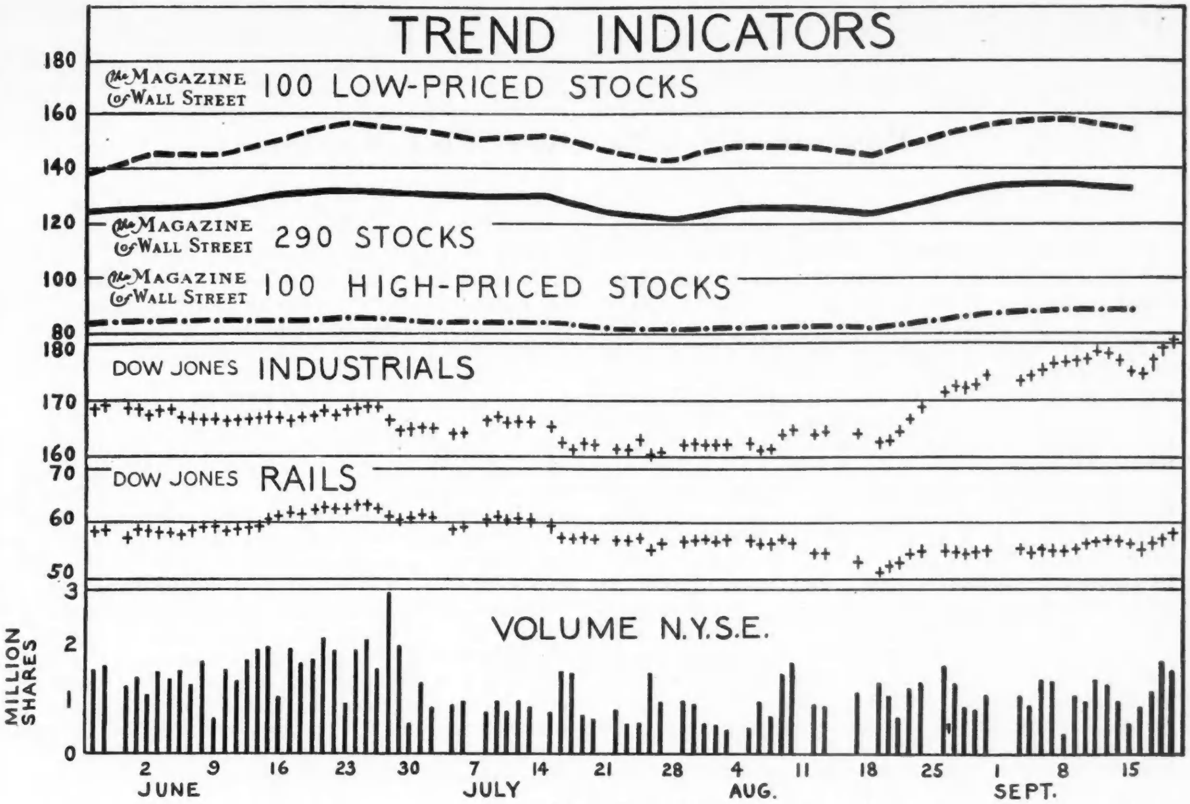
Perhaps they will be as good, in increasingly depreciated dollars, as present average stock prices anticipate. Nor can anyone prove today that the hopes which probably will generate further rise are unfounded or exaggerated. Yet it is a fact that things have never been as good as bull markets, in their later stages, have allowed for.

And it is also a fact—too often forgotten—that rising prices are not necessarily the same thing as rising values. If you have to buy a house, for example, you'll pay around $14,000 to $15,000 for a place that cost $10,000 before the war—but there is not 40% to 50% more "value" in it, in terms of the shelter afforded, the convenience, etc. Nor is it probable that you could get your price out of it on a resale five or ten years hence, when real estate and building conditions have become normal — perhaps even deflated—instead of inflated.

There is some analogy in the stock market, though it, of course, can not be exact. Some of the most successful investors the writer knows have never fretted much about exact tops and bottoms in the market, and have missed most of both by what seemed a wide margin at the time—but have made and kept snug fortunes by buying "generally low" and selling "generally high" on no rule more precise than common sense conservatism.

This bull market is in its fourth year. With the exception of the first six months or so of recovery from greatly over-sold levels, all of it has represented a discounting of postwar "good times," mounting money supply, etc. Current dividend yields on standard industrials have been cut to less than 4%. We have reached the stage of ever more hopeful bullish rationalization. It is argued that the Dow industrial average, which for a time last week crossed the 180 mark, will rise to at least 230 because (1) future dividends will be substantially higher than now and (2) stocks of the type in this average should sell on a 3% yield basis—though one will be able to get a sure 2.5% from gilt-edged bonds and well over 3% in any number of bonds and preferred stocks offering a far higher safety factor





than can possibly be offered, on average, by the 30 Dow industrials.

Obviously, the market is not in "generally low" ground, ideal for investment buying purposes. On the contrary, it can only be considered in "generally high" ground—which is not to say it can not go importantly farther. Indeed, as we said at the start of this analysis, we think it very likely will go farther, for we do not see evidence that the "optimism cycle" is losing force. The recent market action demonstrates pretty clearly that investors and speculators are not afraid of the reconversion-period decline in production because they believe it will soon be followed by excellent business, lower taxes and higher earnings; and that they are not unduly alarmed over labor demands because they think that the settlements either will be on terms reasonably acceptable from the standpoint of corporate earnings, or that, otherwise, there will in due time be inflationary price rises.

We can not take exception to this reasoning—so far as it goes. All present evidence suggests that total corporate earnings next year almost surely will be higher than in either 1945 or 1944. However, in the problem of sensible investment there is a more fundamental question involved. We are heading into a "catching up" boom. Those very words imply—as is the fact—that such a condition is abnormal: as abnormal, in its way, as was the war-production activity. If anyone mistakes it for permanent, stabilized prosperity, it will be with no greater basis of reality than was the mistaken acceptance of the Hoover "New Era" in 1928-1929. Indeed, much that is now being done in the name of mass "purchasing power" to support good business will in fact inflate the postwar boom just that much more, and make the subsequent reckoning all the more painful—and its political connotations all the more sobering.

The thought we offer here is that it makes sense to question how high stocks **ought** to sell on the coming better-than-normal earnings, which have been in process of market discounting for a long time already. And it makes sense to take the rationalizing arguments for large further rise — even though the presently available evidence supports, rather than contradicts, them—with a grain of salt, so far as current investment action is concerned.

We can see adequate reason for sticking with profitable positions in well-chosen stocks, but with a constantly open mind, because (1) we think the general optimism probably will push them still higher; and (2) we do not at present see convincing technical indications pointing to serious reaction.

What about new buying? The reduced "percentage" and the increased degree of long-term risk no doubt will surprise you when it is measured in factual terms. One very accurate way of doing so is this: our composite weekly index of 290 stocks, a much more realistic measure of the general stock-price level than is the Dow average, has risen about 236% from the 1942 low. **It would have to return to the 1929 high for the additional rise from the present level to amount to more than 24%.** In other words, the percentage from the last major low to the present level has been nearly ten times greater than it can be from here on, even if the 1929 extreme is matched.

—Monday, September 24.

PART 2

Postwar Markets Over Past Century

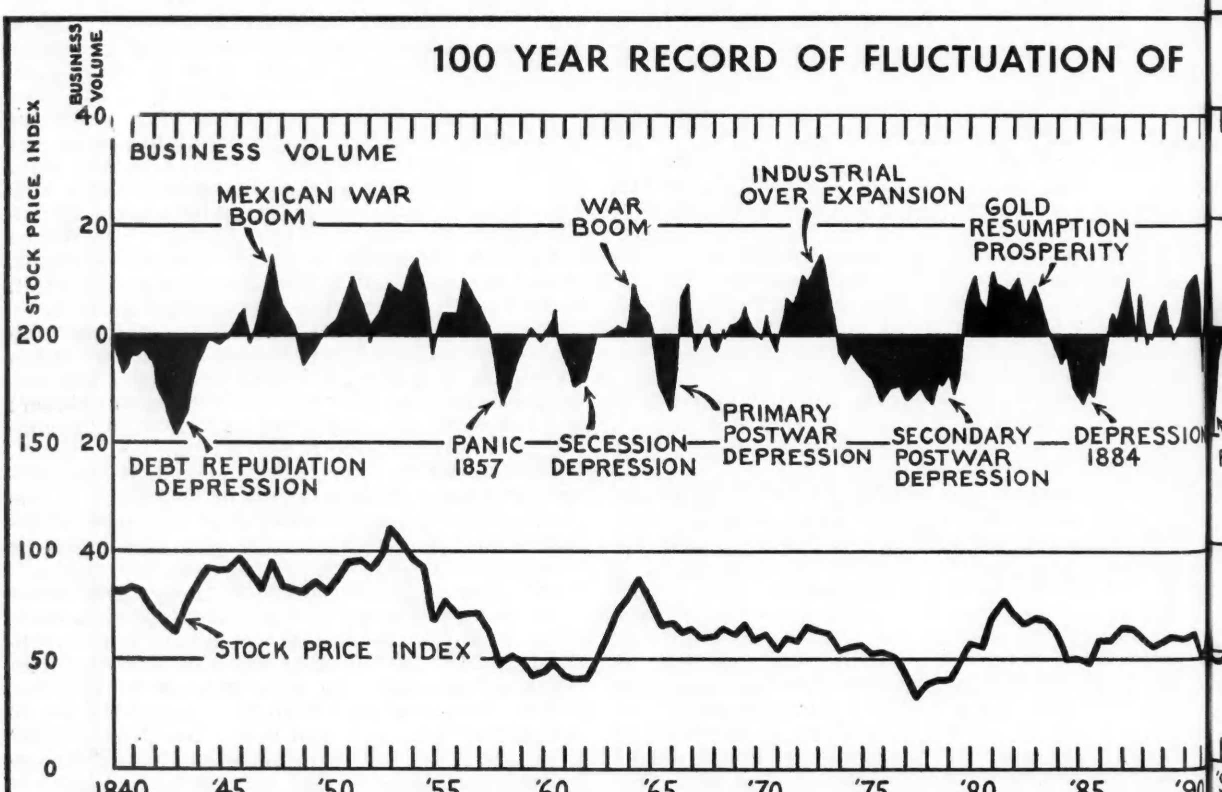
As far back as reliable statistical records go, the charted history of industrial activity and of the stock market is made up of an irregularly spaced series of up and down "cycles," varying greatly both in duration and magnitude. For obvious reasons, every major war has a dynamic effect upon the human activities and sentiments which cause or influence these economic-financial fluctuations, both during the period of hostilities and for some years thereafter.

A study of economic trends in America after the major wars since 1812 indicates, roughly, this postwar pattern: (1) a few months of hesitation; (2) then a year or more of active business; (3) next, a fairly short period of deflationary readjustment which the economists call "primary postwar depression"; (4) this is followed by prosperity at boom levels for several years or more; (5) finally, a usually protracted "secondary postwar depression." That stock market swings have normally been geared, again roughly, to these typical sequences goes without saying.

Will history repeat in the present instance? That's a vitally important question to every investor. If one could be sure of it, a "killing" could be made in stocks. Unfortunately, it is not nearly as simple or clear-cut a matter as the above paragraph might at first glance seem to imply.

Typical Pattern

A "typical" economic or market pattern is a statistical abstraction: an average of past results which actually have varied widely. Evolutionary change—of radical proportions over any lengthy period of years—is not to be denied in technology, in business methods, in public tastes, in social concepts, in the relation of government to private enterprise. Even in earlier times when "natural economic law" had far freer play than it has in the modern world, the business cycles, as we noted at the start of this article, had widely varying characteristics. The more we modify pure capitalism, by government regulation and intervention or otherwise (as by the dictates of labor unions or organized farmers), the less likely is it that the economic



history of an earlier time will repeat.

Wars, to be sure, have many things in common. Each results in property destruction, leaving more or less of a void to be filled by postwar production. Each deprives consumers, in one way or another, of some portion of their regular supply of goods and services: here again setting up abnormal, accumulated needs to be served after the war. Each causes abnormal increase in industrial production, commodity prices, employment, wages, bank deposits, money in circulation, taxes, etc.

Varying Experience

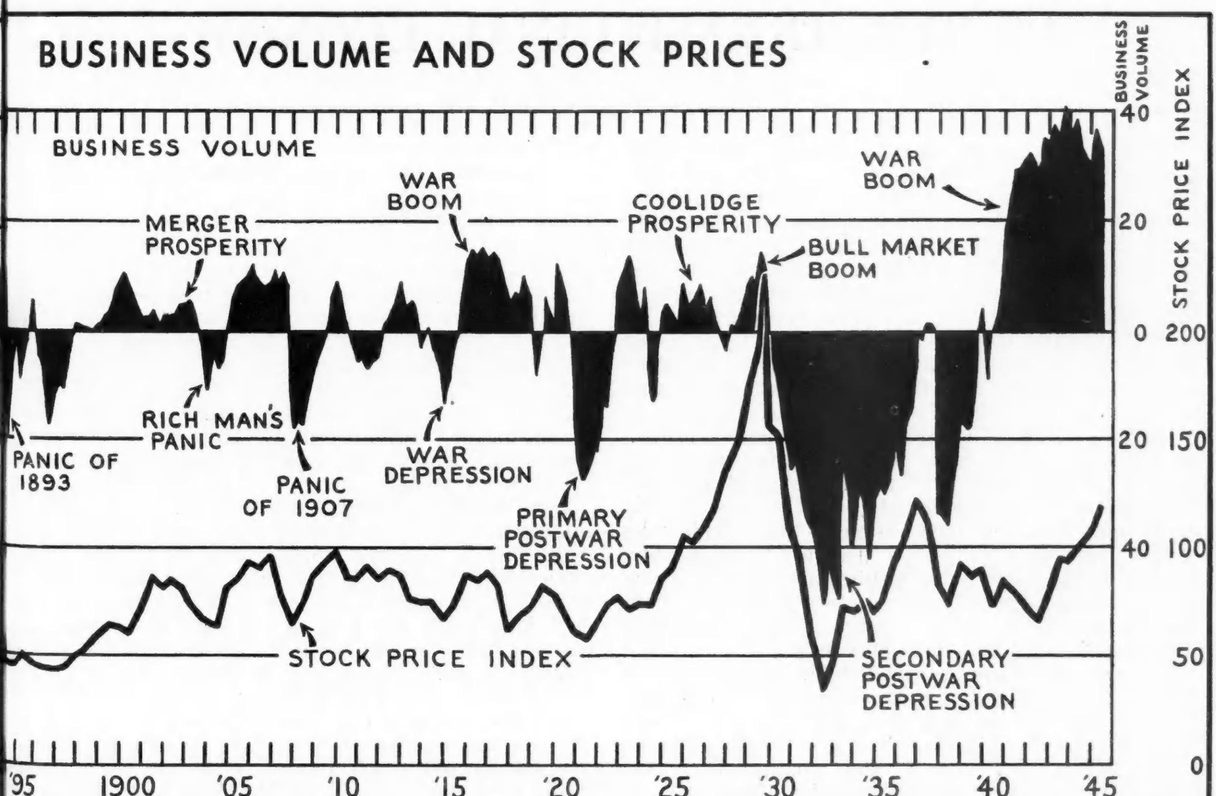
Nevertheless, in the intensity and emphasis of economic-financial repercussions—and in the modifying effects on our political-social institutions—each war fought by this nation has differed markedly from the previous ones. For example, the Civil War was carried on with the economic system functioning virtually under a free capitalism and before the modern Government-controlled banking system was ever dreamed of. Naturally, the most spectacular result was a soaring commodity price rise, reflecting not alone unusual demands but a currency debased by greenback inflation. This was followed, of course, by an exceedingly protracted price deflation.

The First World War was the first approaching "all-out" involvement of populations: therefore requiring government-controlled economies because of the greatly increased proportion of national productive effort diverted to war purposes. Among most of the other great powers involved, control was more extensive and intensive than here, partly because of differences in national institutions and traditions, but mainly because the war lasted only some 19 months, so far as our formal participation was concerned; and only six months or so in terms of large-scale fighting by American troops. In a representative democracy, "war planning" is in large measure improvisation. We were in that war long enough to make some mistakes, not long enough to apply fully the experience gained. Yet as compared with the Civil War, and earlier conflicts, we had gone very much further, indeed, toward Federal control. The technique of financing a war, without impairment of Government credit, had been mastered. The price inflation was less than in the Civil War—especially during the actual period of war, for much of it needlessly occurred in postwar 1919 and early 1920, as a result of too early removal of price curbs.

How World War 2 Differs

In the war now ended, we have had not only complete Government control of the money market but genuine war taxes, and — to the fullest extent deemed necessary by the Administration—consumer rationing and Federal control of the materials, output, prices and labor supply of each industry.

Although money supply and total consumer income have risen far more greatly than they did a quarter-century ago, and although as much as 70% of total industrial (*Please turn to page* 732)



CORPORATE EARNINGS TRENDS IN OUR TRANSITIONAL ECONOMY

BY E. A. KRAUSS

PREDICTING corporate earnings can never be an exact science, and this applies doubly to the transitional period with all its manifold uncertainties and imponderables. Yet there are certain basic elements in the outlook that strongly support the belief that industry's transitional earnings experience will be relatively better than many expect.

In fact, corporate profits this year, that is for the whole of 1945, should shrink only moderately under last year's, and they should stand up surprisingly well in 1946 in spite of the vagaries of reconversion. In the aggregate it seems doubtful whether industrial profits for 1945, after taxes, will decline as much as 10% from the 1944 total of $9.9 billion though naturally, as the year draws to an end and reconversion gets into stride, the *rate* of earnings will have declined considerably. Also, individual company results are bound to vary widely depending on many factors such as reconversion difficulties, reconversion speed, the effectiveness of individual tax cushions etc.

The fact that the war ended during the second half of the year and that reconversion is progressing rapidly will tend to sustain earnings levels both for 1945 and 1946. Profits during the first seven or eight months of this year reflect sustained war activity. During the first six months alone, net income of corporations had risen some 7% over the corresponding 1944 period. In many instances, of course, the earnings rate from here on will drop substantially—in the wake of cancellation of war contracts—but the impact of the loss of war business will be less marked in net than in gross income, due to the workings of the tax law. In many instances where corporations have been high in EPT brackets, earnings will hold up fairly well but EPT payable will decline sharply. As we know, corporate net earnings after taxes drop 14.5 cents for each $1 decline in "excess profits," and 60 cents for each $1 decline in "normal profits." Thus pre-tax income can shrink enormously without comparable deterioration of post-tax net.

Congress is expected to act this fall on an interim tax measure which will reduce the excess profits tax rate. Such a measure would mean that many companies will show no decline in earnings after taxes, even though income subject to EPT were cut in half. Eventually the EPT is expected to be repealed entirely but this will probably not come while some companies still are winding up war contracts.

The outlook for 1946 earnings will improve if the reconversion speed now evident is maintained over the coming months. In that case, a number of industries should reach record peacetime production levels next year. It will enable them to shave unit production costs and thus enjoy reasonable profit

Projection of Corporate Earnings Under Various Tax Conditions

($ billions)

	1944 Full Wartime Taxes	1946 If No Tax Relief	1946 Under 60% EPT	1946 With EPT Repealed
Pre-tax Net	$25	$17	$17	$17
Taxes	15.1	9.0	7.6	6.8
Net after Taxes	$9.9	$8.0	$9.4	$10.2

margins even though price ceilings should be retained through most of 1946. In any event, the carry-back of unused EPT credits in many cases will reduce the amount of corporate taxes, correspondingly bolstering net. Thus it may occur that a number of companies, especially in the consumer durable goods field, should be able to report larger earnings for 1946 than for the prewar years. The extent of tax relief to be expected will of course always be an important determinant.

But even apart from tax factors, the corporate earnings outlook appears fairly favorable if projected solely against the prospective production outlook. Government statisticians estimate that while gross corporate earnings will shrink sharply between now and the end of 1946, net after taxes may decline little more than $2 billion from the pre-VJ-Day annual rate of nearly $10 billion. This estimate is based on the belief that corporations next year will have slightly more to sell than in 1941 but dollar returns will be well above 1941 due to increased prices. This should mean a gross national product of some $160 billion, at least, and on this basis, total corporate income before taxes should be about $17 billion, or $8 billion less than in 1944 when gross national product was nearly $199 billion. The tax bill of course will decline almost as fast as income, but post-tax net certainly will not decline in proportion to pre-tax earnings.

Projected Corporate Income

Corporate income before taxes of $17 billion should leave better than $8 billion net even if EPT remains in full force. If EPT should be repealed, 1946 net profits of corporations may come as high as $10 billion. Partial elimination, depending on the exact percentage, should leave 1946 corporate net well above $8 billion or something around the 1941-1942 level, in effect little more than 10% below 1944.

One reason why national income is likely to hold up at fairly high levels, despite reconversion interruptions, is the fact that Government spending during the current fiscal year and beyond will continue at abnormal levels, acting as a brake on the deflationary downtrend. During the 1945-46 fiscal period, Federal outlays will come to about $65 billion, acting as a distinct stabilizing factor since the amount thus injected into the income stream will importantly bolster business activity and income payments. It will, in fact, work two ways, both constructive. It will slow up the economic downtrend while it lasts, and it will tend to speed the subsequent upturn, once the downtrend is halted and reversed.

Just how this works is readily exemplified by a few figures. In 1944 production of consumers' goods and services amounted to $97.6 billion, despite our all-out war effort. In 1946, this should come to at least $100 billion. Add to this Federal expenditures of some $65 billion, state and municipal outlays of about $8 billion (about the same as in 1944 but it will probably be higher) and private gross capital formation of about $5 billion, and the total would point to a gross national income of about $178 billion compared with $198.7 billion in 1944, or a decline of 11%. Clearly, if the gross national product comes anywhere near such a figure, there could hardly be a disastrous drop in corporate earnings; the relationship between the two is well known and fairly constant. For the sake of conservatism and considering other pertinent items not detailed in our calculation, we are assuming however a gross product of only $160 billion, as earlier mentioned. Even with no tax relief whatsoever, it should be productive of aggregate corporate earnings of at least $8 billion, or not quite 20% below 1944. Even limited tax relief could shave this percentage drop to around 10%.

Considerable Variation Expected

As pointed out before, this doesn't mean that the earnings drop, in individual cases, will never exceed any such percentage. There will be considerable variation; high wages and relatively low ceilings may squeeze a good many companies. Yet the economy has an amazing way of averaging things out. If one line of business cannot achieve its full respective share of total industry profits, another usually does, or can even improve on it.

There is of course one reservation that must be made. The outlook as projected certainly requires an overall "climate" conducive to fairly free consumer spending—on the whole meaning confidence in the future. If such confidence is lacking, the free spending habits required for a $160 billion gross national product may not prevail.

What could impair confidence in the year ahead? It could mainly be a deepening of unemployment to levels that would tend to restrict seriously consumer spending. This may or may not occur. The odds are certainly against it, what with reconversion proceeding at a fast pace, with mass layoffs in war industries having passed their peak, with many industries actually suffering from a labor

National Income by Distributive Shares

(Billions of Dollars)

	1943	1944
TOTAL	149.4	160.7
Total compensation of employees	106.3	116.0
Salary and wages	103.1	112.8
Supplements	3.2	3.2
Net income of proprietors	23.5	24.1
Agriculture	11.9	11.8
Non-agricultural	11.6	12.3
Interest and net rents	9.7	10.6
Net corporate profits	9.8	9.9
Dividends	4.3	4.5
Savings	5.5	5.4

shortage even today. Unemployment of course will increase over the months ahead as further layoffs occur and as demobilization of service personnel is speeded up. As many as seven million may be idle early in 1946 but not all of them will be genuine unemployeds. A good many may not return to the labor pool as available workers.

What's more, industry by that time will be swinging into volume production, progressively opening up new employment opportunities. By June at the latest, a general upsurge is looked for after the economy has scraped the transitional bottom for about three months. The second half of 1946 should see excellent business, assuming boom proportions. Even before that and beginning by the end of this year, business should be good though the overall trend in production will still be downward from the abnormal wartime highs.

If the corporate earnings outlook is quite promising, what about dividend prospects? On aggregate corporate profits of about $8 billion, there should be relatively little dividend reduction — broadly speaking. A number of companies of course will be forced to cut or omit payments, if only temporarily; some may do so merely as a precaution. Should 1946 corporate net come to about $10 billion—which it very well could, given tax relief—aggregate dividend payments may well be higher than currently.

Larger Dividends Ahead

Wartime dividend payments have been low, averaging less than 50% of income for all corporations, due to the need for conserving cash to take care of future contingencies such as reconversion costs, possible inventory losses etc. This need will no longer exist, certainly not in previous degree, and write-offs for reserves will be either discontinued or pared considerably in the majority of cases. In turn this will not only bolster earnings—as will tax refunds — but permit more liberal treatment of stockholders. As against wartime distribution of not fully 50% of corporate net income, the peacetime average is expected to rise to 65% or 70%, possibly even somewhat higher. These figures would more nearly approach the long term average.

Not only as to earnings but as to prospective dividend payments as well, the question of tax relief assumes major importance; it will make the difference between aggregate corporate profits in 1946 of $8 or $10 billion, with easily recognized dividend connotations.

There is as yet no clear indication just how much tax relief can be expected by industry. Repeal of EPT, though widely advocated, is hardly in the cards immediately but a substantial reduction, say to 60% as against the present top rate of 85.5%, is a definite probability. Also, whatever the actual reduction, the provisions for carry-back of unused EPT credits will probably be left in force. This method of adjusting a prior year's taxes to reflect any income decline was chiefly designed to take care of reconversion problems and as previously pointed out, will act as an important sustaining factor of corporate income during the transition.

It is something worth watching. Some of the war-active companies are counting on collecting heavily under the carry-back provision during the next two years. If by any chance EPT is repealed and the carry-back privilege lost in the process, such companies may lose more than they otherwise would gain.

Gross National Product or Expenditure

(Billions of Dollars)

	1943	1944	Projected 1946
TOTAL	187.8	198.7	178.0*
Government expenditures for goods and services	94.8	99.4	65.0
Federal Government	87.4	91.9	
War	82.5	86.3	
Non-War	4.9	5.6	
State and local government	7.4	7.4	8.0
Output available for private use	93.0	99.4	105.0
Private gross capital formation	2.1	1.8	5.0
Construction	1.5	1.6	
Residential	.6	.5	
Other	.9	1.1	
Producers' durable equipment	3.1	4.0	
Net change in business inventories	—.6	—1.7	
Net exports of goods and services	—1.8	—2.1	
Net exports and monetary use of gold and silver	—.1	(a)	
Consumers' goods and services	90.9	97.6	100.0
Durable goods	6.6	6.7	
Non-durable goods	55.1	60.0	
Services	29.3	30.9	

a)—Less than $50,000,000.
*—Subject to reductions for items not detailed in the 1946 projection.

As to tax reduction possibilities applicable to 1946 corporate income, the resultant net profit potentials—based on varying premises—are projected in the appended table, assuming aggregate pretax corporate net of $17 billion, the basis of which has been explained earlier in this article.

Such pretax net, if there were no tax relief whatsoever, would still leave corporate net income after current high wartime taxes of $8 billion. Assuming an EPT reduction to 60% and continuance of normal-plus-surtax of 40%, resultant posttax net would swell to $9.4 billion. If EPT were entirely repealed, leaving only normal-plus-surtax of 40%, corporate net income after taxes would amount to $10.2 billion, exceeding the 1944 high of $9.9 billion.

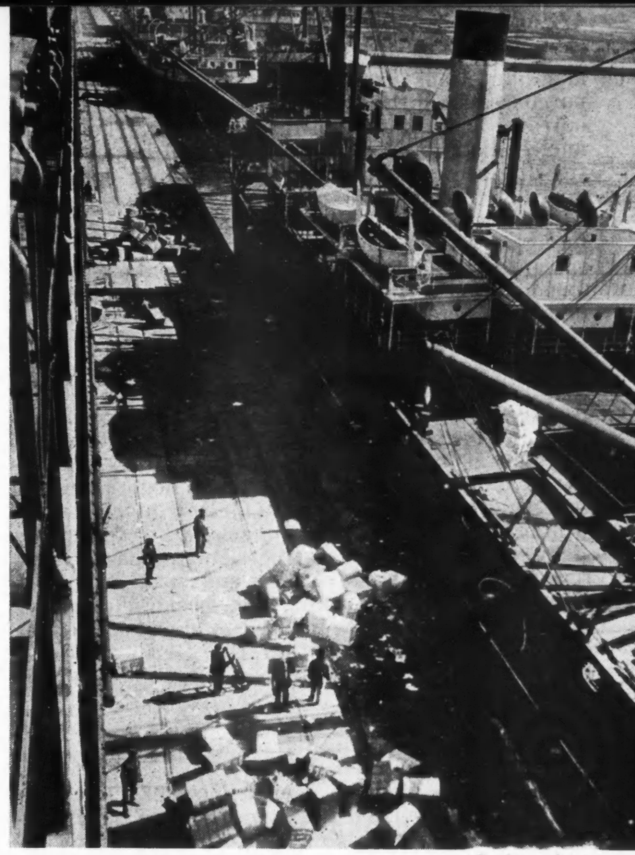
The Favorable Possibilities

Such are the possibilities; they are of course conjectural in the sense that pretax net of $17 billion is conjectural. However, the possibilities are sufficiently realistic to merit consideration as a basis of future appraisal. Naturally, among individual concerns, there will be many departures from this overall pattern, in either direction. In view of the favorable general outlook, any departure from the pattern on the negative side, in the case of some companies, should be productive of surprisingly good results on the positive side in the case of others. This holds true even if the tax outlook is viewed with considerably more realism than many optimists do.

The optimists count on repeal of EPT effective next year. This not only would immensely brighten the outlook for 1946 corporate incomes but would also restore common (*Please turn to page* 729)

Looking Ahead *To* Foreign Trade

BY JOHN DANA



(Gendreau photo)

ACHIEVEMENT of maximum employment, cherished postwar goal of business and the Administration, depends in no small measure on fullest exploitation of our export potentials. It is widely realized that foreign trade and international economic interdependence is closely related to our own domestic economy. The simple fact is that we cannot plan for, nor anticipate realistically, a high level of postwar production and productive employment without paying closest attention to our international economic position.

In the circumstances it is but natural that paving the way for active and unencumbered foreign trade is presently a major preoccupation of those in and out of Government whose task it is to concern themselves with foreign trade matters. Clearly ours is a major interest in the expansion of world commerce. We are a powerful industrial nation, needing large quantities of goods and services from foreign nations. Also, we have a large margin of efficient productive capacity which must be put to use. Above all, in the immediate postwar years, our own goods will be sought by the world in enormous quantities. Quite naturally, the environment in which this give and take of postwar foreign trade will take place is for us, as for the world, a matter of greatest interest.

Toward Unimpeded Foreign Trade

Although the prospect of a larger and freer flow of world trade in the years to come is well recognized and soundly based on the enormous needs of a war-battered and impoverished world which must look primarily to the United States as an immediate supplier of essential goods of every description, observers are often impressed with the war-born difficulties that threaten to beset postwar trading, with the prospect of even greater obstacles in the future that may stand in the way of fullest realization of our export potentials.

Government has long been aware of this and for many months has been actively striving for lower trade barriers, for fewer restrictrions, for a free flow of world commerce. We have worked toward this goal at Bretton Woods, at the Inter-American Conference at Mexico City, at the San Francisco Conference, at the Chicago meeting on world air commerce. We have liberalized our Tariff Law; we have increased the lending power of the Export-Import Bank to assist foreign countries in their commercial dealings with us, to enable them to trade with us on a non-restrictive basis. Right now, vital conversations are going on in Washington with British negotiators; the primary aim is creation of a future foreign trade pattern in consonance with our own trade concepts. With the advent of V-J Day, the time has come to further and vitally readjust our focus on the future of foreign trade prospects. Lend-Lease has been abolished, the scheme originated to take the dollar sign out of the war that resulted in free shipments of goods and in free services to our allies in the amount of over $42 billion. With Lend-Lease abolished, the dollar sign is once more back in foreign trade and in foreign economic relations. Its return has quickly brought to a head a multitude of problems besetting the world trade outlook.

As a transitional aid, official procurement facilities were offered to our allies for sixty days after V-J Day on a reimbursable basis to give them time to work out their own arrangements for continuing the flow of supplies they urgently need, either on a cash or credit basis. Thereafter, however, all goods for shipment abroad will again be procured in the open market and financed on some commercial basis.

This marks an important transition from wartime procedure, severely affecting especially Britain. As a corollary, the shift puts into bold relief the all-important question how henceforth official controls

and limitations exercised abroad over commercial purchases from the United States will compare with our own ideas of foreign trade practice. The resultant conflicts—and conflicts there will be—point up the apparent inconsistency between over-optimistic views of foreign trade potentials and the seemingly restrictive measures of control and direction of their foreign trade currently and in the future employed or contemplated by foreign governments. Satisfactory solution of these problems is a prerequisite for fullest exploitation of world trade opportunities.

Without question, key decisions on postwar trade policies can be expected to crystallize and emerge during the next few months. The pattern of future Anglo-American trade relations hinges on conversations now under way in Washington. Obviously, Britain was hard hit by sudden termination of Lend-Lease. Issues before the Washington negotiators are centering on two questions: (1) How much are we willing to pay to put Britain back on her feet financially, and (2) how far is the latter prepared to go toward removing trade controls and currency restrictions. Or in other words, the basic question is whether Britain can be induced to abandon the idea of controlled trading within the sterling bloc in return for a large American loan to tide her over the next three to five difficult years.

Anglo-American Trade Problems

While the conference agenda includes such technical matters as Lend-Lease termination, loans and commercial policy, there are of course other underlying questions which must be canvassed if any agreement reached is to prove acceptable either to Congress or to the British Government. Since Britain's present economic crisis is directly traceable to the war, the question arises whether the U. S. A. has a moral responsibility to aid the British economy. Insofar as this involves a judgment on sharing war costs, it applies to all other allied nations as well, most of them now facing serious difficulties and looking for American aid. Also, there is the question of self-interest, economic or political; and for many the entire question is further complicated by the fact that the British Labor Government is pledged to a program of social-economic reconstruction considerably further left than any policy now favored in the United States.

Little wonder that the Anglo-American negotiations have come off to an uncertain start. The main difficulty is not so much disagreement as to objectives but as to methods. But it is a safe expectation that from the bold and often bitter maneuvering now going on will finally emerge the fundamental patterns which ultimately will govern postwar trade with a large part of the globe.

Our own approach to the British problem—which is really a world problem and therefore of a basic nature—is fairly simple and well known. While not overly rigid in detail it is nevertheless definite in outline. We are in favor of writing off the Lend-Lease debt—as a contribution to victory. Strictly speaking, Lend-Lease aid represents a debt owed to us until agreement on settlement is reached This concession is by no mean picayune. Altogether Britain received Lend-Lease aid of $13.94 billion in form of goods and munitions shipped to her. The total is further raised by a large additional amount for services rendered and for domestic transfers. Against this, Britain acquired a credit of $3.79 billion for reverse Lend-Lease. Our willingness to write off the net balance thus means forgiving a debt considerably in excess of $10 billion. To help tide her over immediate difficulties, we are willing to go further. We are prepared to grant her substantial long term credits, enabling her to balance trade accounts and to continue much-needed purchases in the United States.

Great Britain Balks at Terms

In return, we expect Britain to reduce, if not abolish, trade restrictions, more particularly her Empire preferences, in furtherance of freer world trade, and it is here where Britain balks most. Not that it is the only point of disagreement; there are others and important ones.

We have also suggested that British dominions and colonies which have blocked sterling balances between $14 and $16 billion should cancel one-half of the debt owing them by the United Kingdom—the remainder to be funded or partially unfrozen—that they likewise extend to Britain a large long term credit, preferably non-interest bearing. Needless to say, this proposal for "wiping the slate clean" has found an extremely cool reception in Empire quarters; Britain herself is reluctant to take the initiative in seeking to have her debt to Sterling bloc nations scaled down so drastically. India for instance calls the suggestion "cruelly unjust." Other Empire countries probably share this feeling.

Our own attitude is that dollar credits constitute

Value of United States Exports, Including Re-Exports of Merchandise, by Major Area of Destination

(Thousands of Dollars)

	1939	1942	1943	1944
Total	$3,177,176	$8,079,517	$12,963,120	$14,241,929
North America	802,639	1,841,805	2,022,610	2,104,200
South America	329,127	375,837	411,478	540,254
Europe	1,289,311	3,997,075	7,616,836	9,330,483
Asia	561,572	687,540	837,485	(a)92,262
Australia & Oceania	79,505	361,454	567,360	(b)
Africa	115,023	815,802	1,507,350	861,381

(a)—Does not include Pacific area countries.
(b)—Data not shown for security reasons.

Value of United States General Imports of Merchandise by Major Area of Origin

(Thousands of Dollars)

	1939	1942	1943	1944
Total	$2,318,081	$2,741,852	$3,372,100	$3,913,192
North America	580,629	1,114,322	1,689,082	2,037,492
South America	317,267	637,941	765,886	915,453
Europe	617,166	217,647	233,463	285,513
Asia	699,582	337,542	234,815	(a)98,505
Australia & Oceania	26,705	230,835	245,376	(b)
Africa	76,737	203,565	203,478	221,134

(a)—Does not include Pacific area countries.
(b)—Data not shown for security reasons.

not the only way out for Britain. The sterling debt she owes is considered just as important, and the point is made that sterling obligations could be written down just as Lend-Lease balances are written off, that other British creditors can likewise contribute to restoring Britain's financial health by halving her external debt. With the remainder funded at such a level, Britain then would be in a position to export more for cash and to accept credits more nearly on commercial terms.

A point of strong disagreement is that Britain is averse to any financial aid on a commercial basis, maintaining that she cannot afford to go further into debt. Thus her original quid pro quo—asked in return for freer trade practices—was a "grant in aid of $6 billion, an outright gift, if you will. Such assistance is needed, she argued, if Britain is to remain solvent while relaxing currency controls and easing trade restrictions.

In the United States, the request for a "grant in aid" of such magnitude was hardly taken seriously; from a political standpoint alone, it is virtually out of the question. We offered loans instead, long-term and at very low interest rates, or even non-interest bearing. One suggestion advanced would call for a $4 billion non-interest bearing credit to be repaid over a period of forty years in annual instalments of $100 million beginning in 1951. Other loan variations have been reported, ranging anywhere from $2 to $5 billion.

Such offers naturally do not spring merely from altruistic motives. As a matter of self-interest, we realize full well the need of helping restore the economic health of our best trade customer. However, quick agreement with the British can hardly be expected and the bargaining continues, as does the maneuvering for position. Recent rumors of impending sterling devaluation seemingly have been circulated as a hint of what might happen if Britain isn't helped to weather the difficult transitional years. Actually, Britain would hardly gain an important advantage from such action which would boost the cost of imports from non-sterling countries at a time when the demand is especially heavy. For the time being, the rumor certainly can be discounted, for England certainly cannot afford to cheapen the pound sterling now.

While negotiations are difficult, there is good reason to expect that Britain eventually will yield on the paramount issue of giving up imperial preferences and the sterling bloc. There are several straws in the wind. London press reports reveal a somewhat more cooperative attitude after an initial bitter outburst against the sudden termination of Lend-Lease. More recently, the question which ought to be sacrificed, imperial preferences or American financial help, was unequivocally answered by the London Financial News to the effect that preferences should be discarded as the price of needed trade with the United States.

In view of Britain's dependence on trade with us, this attitude is not particularly surprising but it is by no means general. Powerful forces in England continue to favor withdrawal into the sterling bloc and widening of the latter into an independent trade bloc, virtually shutting out American commerce. However, more sober views are beginning to prevail in the face of the realities of the situation. There is spreading belief in Britain that there is relatively little chance of successful long term operation of a tight Empire bloc—in competition with goodly part of the rest of the world and especially the United States. The "tight sterling bloc" theory is also opposed by powerful factions within British industry where there is thorough realization of Britain's great dependence on American help, help that is vital if the British economy is to recover and which can only be had in the United States.

Imports for Consumption, by Economic Classes

(Dollar amounts shown in thousands)

	1941	1942	1943	1944
Total	$3,221,954	$2,769,285	$3,377,684	$3,871,797
Crude Materials	1,376,355	1,049,682	1,027,696	1,061,789
Crude Foodstuffs	376,179	348,576	584,197	841,409
Manufactured Foodstuffs	322,058	274,507	421,650	521,135
Semimanufactures	724,310	639,506	677,467	706,155
Finished Manufactures	423,051	457,015	666,673	741,309

Exports of U. S. Merchandise, by Economic Classes

(Dollar amounts shown in thousands)

	1941	1942	1943	1944
Total	$5,019,877	$8,003,642	$12,839,700	$14,144,127
Crude Materials	355,427	418,014	662,144	554,014
Crude Foodstuffs	83,578	67,838	109,067	133,854
Manufactured Foodstuffs	418,457	925,227	1,550,062	1,632,184
Semimanufactures	777,756	918,631	1,091,413	1,096,882
Finished Manufactures	3,384,659	5,673,932	9,427,015	10,727,193

Ultimate Agreement Probable

Consequently Anglo-American conversations have increasingly taken on the complexion of actual negotiations and hope persists that a satisfactory deal can be made despite Britain's initial "or else attitude." The expectation now is that Britain ultimately will agree to a reasonably liberal foreign trade program in return for American loans which may eventually total $5 billion but will be much less to begin with, probably no more than $2 or $3 billion at the most. They will be long term, bearing a very low rate of interest. Preceding them will be other credit accommodations facilitating immediate purchases of badly needed American goods including foodstuffs.

Complicating Anglo-American negotiations is the fact that they are closely watched by other countries with the tendency to view the final results as a precedent to be followed in their case. Both Russia and China are out for substantial American loans, the former only recently suggesting an amount of between $3 and $6 billion, and similar requests, though in lesser amounts, are expected from other allied countries. An out- (*Please turn to page* 736)

Charles Phelps Cushing Photo

Happening in Washington

BY E. K. T.

LABOR PROBLEMS which were responsible for government seizure of industrial properties are being revived with renewed fury as the War and Navy Departments pull out. Sixteen such properties have been returned to their owners and union troubles which were only in abeyance promptly came to the surface. While policy of dumping labor disputes into the laps of private management at this time might seem unsound, the fact is that the government's only excuse for seizure in the first instance was promotion of the war effort.

LEND-LEASE sudden revocation is having an adverse effect upon the food industries, the Department of Agriculture is learning as a result of many appeals for guidance. Expanded production, threat of great surpluses, raise the question of government price support and the White House will move in with a broad plan. Great Britain and Russia are buying on a cash basis but no one knows yet whether payment will come out of Import-Export Bank loans. If UNRRA stood in better repute with Congress, it might have been the pipeline to drain off surplus, but fact is UNRRA may not even receive the 1.9 billion appropriation for which it has asked.

CONGRESS is taking its first important step toward bringing under budgetary control the operations of 101 government-owned corporations operating in the fields of production, transportation, generation of power, housing, insurance, etc., whose assets total 29.6 billion dollars with liabilities of 28 billions. A house-passed bill will require 41 to have congressional approval of budgets, the other 60 to satisfy the comptroller-general before spending money. Enactment of this law, for the first time, will make the federal financial reports a true statement of the government's position.

ATOMIC BOMB issue is one of first concern to a Congress which knows little of what went before, less of what is happening today, and can only conjecture as to its future. Various controls—exclusively by the United States, limited division among the United Nations, or full disclosure and control by the Allies—are being discussed. The latter probably will be the final decision. Essential spadework was performed by French scientists, experts from Great Britain took part in development in the United States, and suspicion is that Russia's apparent lack of interest in what is done with the bomb stems from the fact that the USSR is well on the way to production of its own. Disquieting is the knowledge that seizures after VE-Day revealed German scientists had taken steps to harness the energy, now needs no easily discoverable plant to complete it.

Washington Sees:

Atty. Gen. Tom C. Clark's proposal that Aluminum Company of America be split up into competing units may never be realized in the form he suggests but it will give the Surplus Property Board a breathing spell on the toughest assignment it has yet received, namely, how to dispose of federally-owned aluminum and magnesium facilities worth one billion dollars and representing one-half the productive capacity of the United States.

Needless to say, SPB was caught totally unprepared for the task when the Reconstruction Finance Corporation canceled ALCOA's operating arrangement and called for disposition within these bounds: at a fair price, in a manner to aid national defense, to strengthen the competitive position of small business concerns, to discourage monopoly, to stimulate employment.

Productive capacity at the end of the war was far and away above any peacetime possibilities dreamed of. That knowledge will discourage new firms from entering the field. Added hazards are inequities in freight rates and electric power, and in some instances bad locations which inevitably means some must be relocated, some converted to other uses, some scrapped. Also some must be held as "stand-by" for national protection.

Long-term leasing was considered by SPB but the multi-million dollar facilities didn't fit into small business. Government operation isn't favored. Clark's report is a timely "out."

AS WE GO TO PRESS

The future of industry in the eastern section of the United States, chiefly along the Seaboard and New England, might very well be affected by a little-noticed hearing scheduled to take place Oct. 9. A sub-committee on Interstate Commerce will take up the question of continuing the McCarran Committee in existence.

Program of the McCarran Committe is to freeze reconversion of wartime-built plans in areas of industrial concentration until the mid-west can be industrialized. Senator McCarran, Nevada democrat, would lock the doors of "excess" plant in the east, build new ones in the west, encourage mass migrations -- at the taxpayers' expense.

Selection of Senator Brien McMahon, Connecticut democrat, as committee chairman, hints determination of the Interstate Commerce committee to refuse McCarran's group new funds, extension of life. McMahon's state is vitally affected; naturally he's opposed to the revolutionary plan. If he prevails, it will be forgotten.

"Silly conclusion" was more than a devastating answer to the claim by Rep. Harold Knutson, Minnesata republican, that loans to Great Britain would be used to further socialism in that country. It was a proclamation of policy the White House is determined to follow in financial arrangement with foreign nations: political ideologies of the borrowers won't be considered. Rehabilitation of foreign trade will be the goal.

Anyway, it was a futile gesture. Congress will have nothing to say about lendings within present capital of the Import-Export Bank.

Inflation-inviting insured loan provision of the GI Bill of Rights will be amended. Present rule is that returned veterans must act within two years after discharge if they wish to avail themselves of the privilege of borrowing from private lending institutions with the government insuring the lender against loss up to $2,000.

Amendment will extend the period of time for action up to six years, possibly ten. The existing short term is found to be rushing GI's into business ventures for which they are not prepared, encouraging them to buy residential or farm properties on a high market.

Possible additional amendment to the law would let GI's borrow for the purpose of adding equipment to a business already acquired, or for working capital. Surveys have not established a record of high efficiency for ex-soldiers in long-range business planning.

"Contractors' Guide" is title of new War-Navy publication which should be in the hands of every war contractor headed toward termination and reconversion. It's available, free, from government contracting officers. In 60-pages, illustrated with filled-in forms, it gives "all the answers," or tells where to get them.

OPA Chief Chester Bowles will not recede from insistence that distributors bear the impact of price ceiling increases granted to producers, and congressional declaration on the issue may be expected.

The OPA head takes the position that removal of WPB limitation orders will give retailers the advantages and profits of mass selling, overcoming the disadvantage of lower unit profit. Bowles and his aides read into President Truman's message to congress, complete support of their policy.

After three weeks of analysis, the Presidential message stands up merely as an outline. It was intended to be no more than that. Even the Snyder Report,

detailed as it was, served to do no more than spotlight the problems of adjustment to peacetime operations.

The Truman program follows more closely the Roosevelt chart than many expected. Social legislation punctuated its many pages. But there's this difference to be looked for in its execution: Truman is content to expound his ideas and theories, permit the body of which he formerly was a member to accept or reject. The Roosevelt method was to follow White House proposals into the legislative halls, personally lead the fight.

Metal packaging industries will do well to watch Washington developments in their field. British and Dutch missions are here to discuss tin and the rehabilitation of Malayan mines. WPB Chairman J. A. Krug will name his own mission for an on-the-grounds study of conditions and equipment, to search for stockpiles.

One United States stockpile of tin has been released, another -- about 12,000 tons -- is intact awaiting reports from the Far East. After Oct. 1, there should be no problem on paper, paper products or wood. The textile and bag situation will be tight but improving. Outside of tin, the container problem is over.

Transportation: there has been marked easing in rail freight which will continue as the government scales down its demands. Ship movements, while much improved, will continue a problem until more veterans are brought home.

Revelation that United Kingdom had built many cargo ships during the war, while this country supposed shipyard concentration was on "battle wagons" caused critical comment in Washington. It was supposed here that the 400-odd ships given to foreign countries under lend-lease was taking care of the immediate problem -- war.

Air freight will get off to a rousing start very soon. Idlewild, huge new airport on Long Island will be major origin of air freight movement out of the Metropolitan Area. Contracts already have been signed with principal carriers although the field will not go into operation until mid-November.

War Department still is holding scores of fields taken over from municipal or private ownership. Start of commercial use is being delayed by unwillingness of brass hats to declare formally that the military need has passed. Newark Municipal Airport, once a major terminal and headed back to that goal, is an example.

Revocation of government limitations on manufacture and distribution of materials going into home construction is expected to lead to swift expansion of construction activities. Current supply of materials and labor will carry into the spring, but Reconversion Director John W. Snyder is lending a sympathetic ear to urgings to prepare now for the demands that will be made upon inventories when seasonal conditions give home construction a spurt.

A crisis is in the making for government housing projects. War workers who could pay the rents at levels fixed to match war-swollen pay envelopes now are demanding lower rates in keeping with the times and their earnings. Rents suggested wouldn't liquidate the project costs even under the government's not-for-profit housing policy.

• Tax relief by the end of this year is a certainty. What form it will take is an unanswered question. Revenues must be anticipated against a heavy budget for internal affairs plus the existence of a 263 billion dollar national debt, tempered by the accepted fact that expenditures will be reduced at an ever-accelerated pace. Tax experts of both houses of congress have reached agreement on most points. Accepted is the fact that too much delay will hamper reconversion, seriously affect individuals' take-home pay.

AS WE ENTER AN AGE OF SPECULATIVE INVESTMENT

BY H. S. COFFIN

PRESIDENT TRUMAN, in predicting the "greatest" U. S. prosperity in the offing, has crystallized the hopes and expectancies of the nation, injecting a wholesome note of confidence and courage at a time of worldwide economic upheaval. In outlining suggested ways and means to stabilize the economy, the President has started the ball rolling for Congressional determination of broad principles, some of which are new and untried, for the foundation of the postwar program, and after due debate a definite pattern of procedure will emerge for the guidance of industry.

Sound Fundamentals

While the over-all prospects for sound fundamentals are assured and the huge deferred demand for goods will generously bolster production volume all around, the fact remains that to chart the postwar progress of this or that concern through unknown seas about to be traversed would be an impossible undertaking, as historical precedents fall by the wayside and many imponderables are certain to feature postwar corporate experience. Selection of industrial shares, accordingly, more than ever must be based upon a combination of common sense and confidence rather than purely upon statistical evidence, whether the goal be longer term appreciation or well assured income. In any event, certain yardsticks of appraisal need readjustment or redusting, if only to keep enthusiasm and calm judgment in good balance.

Under the abnormal stimulus of war, industrial concerns generally have learned new lessons of operating efficiency as a result of which, in spite of heavy taxes, accumulated earnings have boosted working capital to all-time highs. With valuable experience and ample funds, industry is prepared to leap the thorny barrier of transition to prosper during a second abnormal period when for several years worldwide deferred demand promises to minimize competitive factors, thus holding down sales costs and tending to support the price structure for a while.

Assuming tax relief and ample volume during the approaching sellers' market, it will be strange indeed if this second phase of business activity is not marked by satisfactory, and perhaps excellent, earning power attended by corresponding liberality of dividend distributions. Danger is that these glowing prospects may lead us "so close to the forest that we cannot see the trees," for several years of prosperity may give a false confidence to the long range investment merit of many a concern, under conditions prevailing between 1941 and, say, 1949. Hope of course is that the implementation of new measures to stabilize the national income at high levels indefinitely may prove effective, but even so the knockdown competitive struggle inherent in free enterprise will reach peak proportions only when deferred demand becomes exhausted.

New Significance of Cyclical Swings

Compared with prewar, therefore, cyclical swings assume a new significance quantitatively and qualitatively. Well sustained upward trends may be of longer duration than formerly and depressions, if not eliminated, may be shortened at least. But whatever eventuates, the causes producing the trends will play a larger part in security appraisals than their statistical effects, and perhaps it is not too early to start the practice. A decade hence, analysts are sure to review corporate earnings during war years and the postwar boom with reservations, and by the same token less importance may be attributed to disappointing results registered during periods of general

Television in the home.

depression. Investment merit logically should meet its acid test in the two-fold ability of a concern to lead the way out of cyclical depths and to maintain stamina when business activity is at a high level and competition unduly expressive, rather than by gyroscopic stability of earning power. As price fluctuations for shares are by no means confined to stocks of poor quality, indeed quite the contrary, variations in business activity in a broad sense may lose some of their current investment significance. No concern worthy of analytical study is in business for a year or more only, and its average earnings over a long period may prove far more satisfactory than those of others in a stable but narrow groove.

Selectivity Always Needed

None of the foregoing comments is intended to imply that during postwar the newly gained financial strength of industrial concerns warrants relaxation of standards in determining selectivity. Rather is it true that some modification of previous concepts appears in order and that under current conditions some old ones must be brought out of the closet. Many a concern defined as marginal because of its prewar record may lapse into an uninteresting status again when it can no longer partake importantly of latent deferred demand, although its capital requirements may have been adequately bolstered by war earnings; only time can tell whether it can function satisfactorily in the face of true competition. By the same reasoning it is not wholly wise to disregard potential growth prospects for concerns marked with a laggard record during prewar, as product diversification or new management could produce surprising results in future years.

Statistics Alone Not Sufficient

Exclusive reliance of investors upon annual reports and statistical analyses handicaps their judgment in respect to managerial caliber, and at no time has this factor become more important. Personal contact with executives gives banks a decided edge over the average investor in this respect and as a preliminary to the granting of credit, character and efficiency transcend all other considerations. During war years a wholesome trend to strengthen executive-stockholder relations set in and is likely to broaden during the years ahead, marked by improved periodical reports and encouragement to attend stockholder meetings. A closer appraisal of personnel will be useful in assessing long range prospects when competition becomes hectic because proven operating efficiency in a sellers' market during war and the immediate years thereafter is a poor guide to sales ability when the real struggle to sustain volume will begin. Current market strength in shares warrantably reflects public confidence in the ability of industry to reconvert and to operate profitably in biting into the latent demand for goods, but in the long run earnings will depend upon volume achievements as much as upon cost controls, and here the unfortunately intangible factor of sales and managerial efficiency will come heavily into play.

As the "greatest" period of U. S. prosperity unfolds, chances are that venture capital will emerge from its Rip Van Winkle hiding place, at least to a degree which will importantly increase the turnover of goods and bolster the national income. Assuming this to be true, a healthier and more rational appraisal of investment risks is likely to follow. Not that we are apt to witness the birth and development of huge new industries as in years gone by, for strong concerns already in the field have the resources and ability to exploit almost any and all of the forthcoming "miracle" products, but big business will benefit in a broad way from a resurgence of small new enterprises, regardless of whether they fail or succeed. With Government policies centered upon the establishment of innumerable little businesses, marked headway is bound to result in expanding requirements for construction, equipment and goods. Throughout the country 2,000,000 business concerns have less than $100,000 capital each and all but 500,000 have less than $5,000; this general pattern is certain to experience broad expansion.

Venture Capital Out of the "Dog House"?

For more than a decade past, venture capital has been in the "doghouse" from the combined impact of the crash in the early 1930s and the effect of SEC regulations. Progressively, however, the Government has exempted from registration new issues under $100,000 and more lately under $300,000. Now comes strong public recommendation that the limit be raised to $1 million. The American conception of free enterprise points to a return of freedom to risk money in new ventures as well as to participate actively in any business desired, and that the working capital should be provided by stock rather than by credit is well illustrated by the reported reluctance of returning veterans to tap the carefully set up bank credit pools now functioning all over the country. Chances are strong that private funds rather than bank loans will be forthcoming in increasing amounts and if the odds are against a happy outcome of the business, the circumstance will have been fully recognized in advance, for to this daring characteristic may be attributed the astonishing growth of the nation's industry. No genuine economic loss has attended the wind-up of countless enterprises during the long history of American business although billions of dollars have changed hands in the process, and within rational limits the urge to expose capital to risk for the sake of potential gains is a vital force in any free economy, and should be encouraged rather than deplored.

Broader recognition of the risk factor inherent in every form of business investment is likely to express itself as time goes on. This marks a trend to a return of first principles when business ventures were scarce and capital less hamstrung by inhibitions than now. Among the earliest of all Wall Street financial transactions were subscriptions to a 64th interest in a new ship, and in many such cases the books were closed with familiar speed. The obvious gamble so attractive to investors at that time was made with full recognition that cyclones rather than cycles were the inherent danger, and that between pirates and cannibals chances of getting the money back were about fifty-fifty. But in a couple of years proceeds from a cargo of tea or silk might bring 200% profits, as sometimes

proved true, and as long as Captain Jones was in command confidence ran high. These very simple fundamentals have lost none of their significance for the investor of today and they may prove of genuine value in appraising potentials in the heralded era ahead.

A more realistic approach to the solution of individual financial problems appears on the horizon from a reborn appreciation of the relationship between a stockholder and the corporate producer of his profits; for management, labor and shareholders are inescapably joined together in the same enterprise and therefore exposed to identical risks. The only difference exists in the fact that the "investor" or "speculator" can sell out at will and without notice. Selectivity, therefore, will continue as always to be a transcendent factor, but a further clarification of individual goals would be very wise. The implication of "speculation" should lose much of its strength and not too much reliance should be placed upon the reassuring term "investment" as long as the highest rated shares continue to show marked cyclical volatility in price. Du Pont at 176 compares with a low of 90½ in the 1936-43 period, and a recent price of 370 for Singer Manufacturing Co. compares with a low of 99 in the relative period mentioned, in both instances affording substantial opportunities for "speculators" quite legitimately interested in appreciation potentials only. Furthermore, price volatility is a distinct asset rather than a negative quality to alert investors relying chiefly upon income, as hardly a year passes when important capital gains cannot be achieved to supplement dividend receipts.

Broader Definitions

Similar broadening of definitions appear in order in the discussion of industry characteristics. Few indeed are the industrial groups which are immune to cyclical influences and to term those that are relatively sensitive as "highly speculative" often bunches the sheep with the lambs, and loses sight of the fundamental aims of the majority of investors. Among industries most sensitive to declining business activity are for instance the office machine makers, yet in view of the fact that since 1916 an original investment of $5,762 in International Business Machines could have grown to $159,000, not including $74,000 dividends received during the period, would signalize the unimportance of cyclical factors in the long run. While General Motors showed a deficit in one depression year, and is in an industry strongly reliant upon the level of national income, some 425,000 shareholders are enlisted under its banner and chances are that most of them worry little about the ebb and flow of business at different periods, although they might make more money if they did. Investment rating apparently is determinable mainly by the objective of the individual investor and if this appears satisfactorily gained, no finer distinctions are required. Not that blind confidence in either management or statistical records, or both, can ever supersede intelligent study of other basic fundamentals, as witness the case of Pacific Mills in 1926, when an unbroken dividend record for fifty years was abruptly ended by a long lapse into a negative status. In this instance, occurring during one of the most prosperous periods in the nation's history, competition showed its sinister face and took a heavy toll, thus emphasizing the danger of casual appraisals.

All in all, clearly indicated factors of promise for industry during the next few years are so sound that as never before, the great American sport of "chasing the dollar" is on the brink of achieving a lively tempo. Dividend distributions during quite a period ahead are likely to increase generally, encouraging a trend toward higher prices for shares. Speculative enthusiasm in the process, not to mention easy money rates and a continued scramble for attractive yields, are likely to provide many opportunities to establish capital gains if investors are minded to seize them as and where they appear. After the transitional shock has been weathered, the future presents aspects of glamour for industry which appear fully supported not only by worldwide need for its products but by the lure of numerous new fields such as television, jet propulsion, synthetics and a long list of scientific improvements.

The Reward of Courage

To share in the prosperity now shaping up, fullest measure of capital enhancement could accrue to a well informed class of investors armed with courage as well as money, and prepared to assume the risks inherent to all business ventures, especially where potentials require major reliance upon confidence and imagination rather than upon established records of success. A trend in this direction has already begun to find expression, as witness a sharp leap in new incorporations by New York State "entrepreneurs" alone to a five year peak of more than 10,000 for a single recent month. The millions of dollars in venture capital pouring forth to finance these new enterprises, mostly of small size, is a re-expression of industrial vigor with broad implications for the entire economy in the postwar, and the trend is by no means confined to one state alone; beyond any doubt, when records for the entire nation become available, the totals will be equally impressive.

Above considerations of mere dollars and cents is the cumulative effect of individual decisions to take chances in the tremendous business arena, in the face of assured competition; more courage is required to stake $1000 in opening a new lunch counter than to invest $1 million in a giant enterprise with a proven record, yet certain fundamentals are significantly similar. The records of tomorrow are what will count in each case, and if the bet upon these has an intelligent basis, the risk is warranted. Whether investors succeed or fail in reaching the bright horizon now unfolding will depend upon well considered study plus a large measure of confidence.

Marked by fluctuations in earnings and share prices though they may be, equities of strong industrials today hold good promise for courageous investors, and the door of opportunity is wide open. While rewards will widely differ, risk of capital loss is minimized in sound concerns, many of which are now upon the industrial roster. To share their fortunes may carry more appeal than to rely upon meagre but more certain income.

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Will Commodities Again Reflect World Markets?

BY H. M. TREMAINE

THE inflationary tendencies inherent in our present-day economy quite naturally suggest a further period of rising commodity prices. This prospect receives emphasis from the fact that most prices have been held down by OPA ceilings; once they are removed, an upward trend would seem to be a natural consequence, considering the world-wide demand for commodities of virtually every description.

Yet this is by no means a foregone conclusion. In fact, there are many offsetting factors that would seem to deny the prospect of a broad and uniform upward trend in commodity prices generally, and above all the likelihood of a commodity price boom of the kind experienced after the last World War. While without question we shall enter a somewhat inflationary period, it will greatly differ from the 1919 period especially in that commodity prices are not likely to experience any such explosive rise as they then enjoyed.

The steadiness of commodity prices since the war's end is significant as an indicator of the balancing of inflationary and deflationary pressures. Prices of industrial raw materials, particularly, show no more tendency to decline than does, for instance, the cost of labor, despite indicated surpluses in many fields and substantial wartime expansion of productive capacity. Logically, this situation reflects the widespread expectation that within relatively few months, industry will be producing at a rate well above the levels which were capable of producing commodity booms in the past. It also reflects the fact that ceilings in many instances have failed to express fully the wartime rise in costs. As a consequence of the latter, we witness the peculiar fact that metal prices, for instance, today are held down only by OPA ceilings, despite large visible stocks and enormous wartime expansion of capacity.

Prices of agricultural commodities have held fairly steady so far; even cotton seems to have no great difficulty in holding well above the official support price despite large surpluses. However, a study of the factors behind the price action of agricultural commodities since the war's start points to a quite different situation as compared with commodities generally, and far from following a prospective advance of the latter, agricultural commodities much more logically may be expected to decline.

Advances in commodity prices generally have been due to a demand considerably in excess of supply. This also has been true of farm prices, in a number of instances, but broadly speaking, whereas the Government has attempted to hold down commodity prices as a whole, it has pursued the very opposite policy in respect to agricultural prices. Measures taken have tended to force these up practically to the limit to which they could go.

Thus in appraising the price outlook for agricultural commodities, it is well to examine the changes which have taken place since the outbreak of the European war. For the year 1938, the Bureau of Labor index of all prices except farm products was 81. Currently, this index stands at 101, a rise of 24%. The farm price index in 1938 was 69; today it is 127 or an advance of 84%. In other words, farm commodity prices soared 250% above the wartime rise of commodity prices generally.

Further, while a huge demand from abroad may help maintain or boost commodity prices other than agricultural prices, the latter already have been

forced materially higher than the international price level. Far from being supported by an outstandingly large international commercial demand for such products, it is much more likely that the export of farm commodities—in the long run at least—can be maintained only by a series of export subsidies or by a definite change in our support programs, permitting a price decline to a relatively sounder basis.

Underlying the whole artificial price structure for farm products is of course the parity theory, a foundation frequently characterized as wholly unsound. It is based on the assumption that farmers are entitled to receive the same relative prices for their products as they have to pay for the products they buy, with the five years 1909-13 taken as the base period. The attempt to maintain that ratio fails entirely to take into account the fact that since the 1903-13 era, there have been marked strides in technological developments in agriculture which have largely destroyed the relationship between costs and return existing at that time.

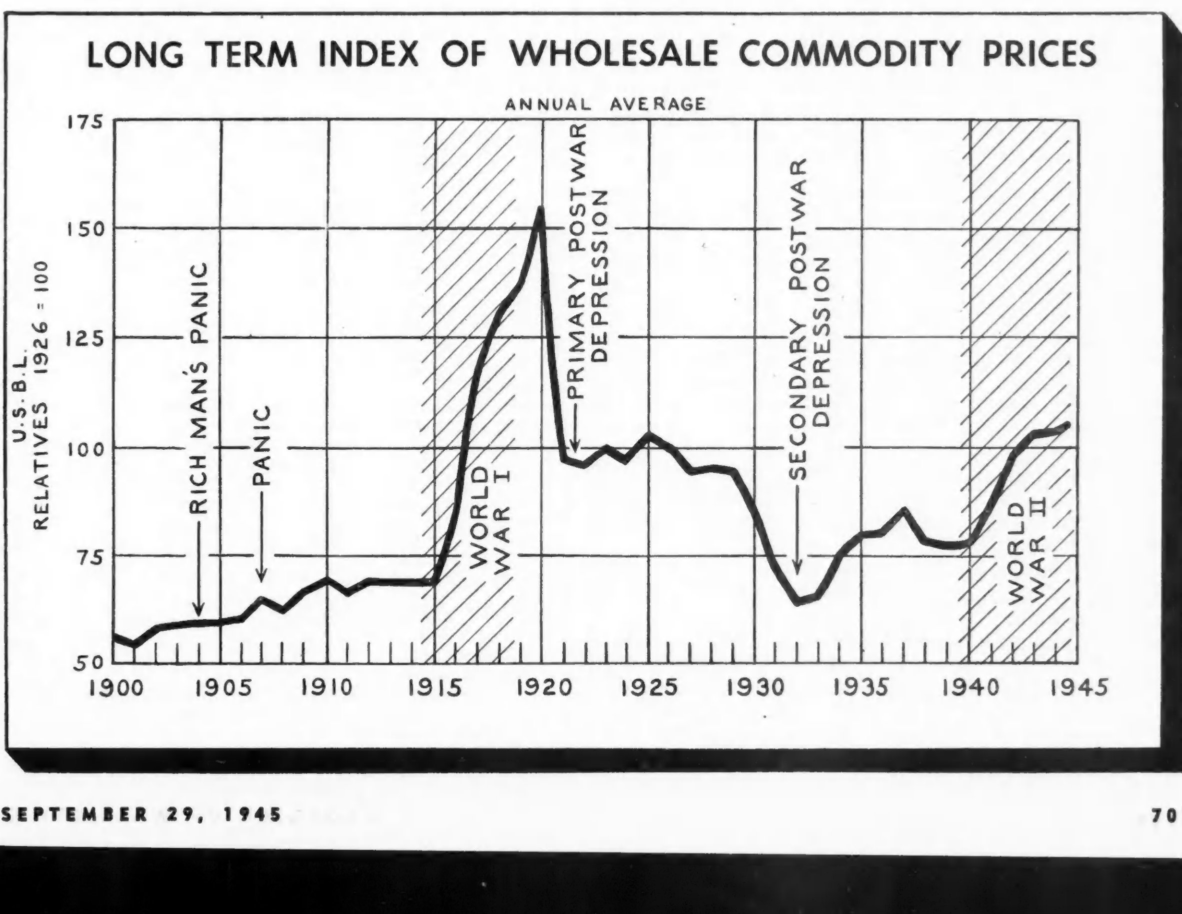
While mechanized farming has greatly decreased the cost of production, it has together with improvement in methods also greatly boosted the yield. As a result, when the farmer obtains parity prices for his major agricultural crops, he is obtaining a money return in relation to his present-day costs vastly greater than he was obtaining in the 1909-13 period. That the discrepancy is great is indicated by the difficulty in forcing to a statistical parity basis agricultural prices which obviously constitute a bonanza return to the farmer.

At present, Government is committed by law to support farm prices at 90% of parity. The important factor to remember is that parity is by no means a static figure. If prices of things the farmer buys go up, parity prices rise accordingly. Faced as we are with a rising general price level, the prospect would seem to point to rising parity prices as well, that is higher prices for agricultural commodities. It is a prospect that strongly argues for continuance of the two-price system for an indefinite period unless our agricultural policies are thoroughly revised, and our markets more attuned to world markets. As natural forces tend to depress prices, they will be maintained, at home, by artificial means. Only subsidies and differential payments will enable us to sell abroad where markets are subject to demand and supply. The latter, at home, will remain virtually powerless as a market influence; Government price support outweighs all other considerations until such time as policies are changed.

Still this doesn't mean that agricultural prices will remain wholly static, and world prices especially will continue to reflect world factors, with certain repercussions on domestic markets. Following are brief discussions of the outlook for the principal agricultural commodities.

As to wheat, most important bread cereal, there have been many conflicting reports regarding the relation of supply and world demands. Fact of the matter is that the world supply is in excess of world requirements.

(*Please turn to page 738*)



LONG TERM INDEX OF WHOLESALE COMMODITY PRICES

ANALYSIS OF C. & O. MERGER PLAN

BY ROGER CARLESON

ON Wednesday, August 21, last, in the elaborate, sky-line offices of the Chesapeake & Ohio Railway at Cleveland, Ohio, there transpired what probably will be recorded as one of the most important and significant developments in railroad history in more than two decades. That day marked the resumption, on a major scale, of a new merger era for the railroads, along lines authorized and set forth by The Transportation Act of 1920, whose purpose is the orderly consolidation of so-called "weak" carriers into a much smaller number of "strong" systems.

This development, which will be far-reaching in consequence for holders of railroad shares generally —not only for those particularly affected in this instance—concerns the creation of a greater Chesapeake & Ohio system through the absorption and inclusion of the New York, Chicago & St. Louis (Nickel Plate), the Pere Marquette and the Wheeling & Lake Erie roads on the following terms:

(1) Exchange of each share of Nickel Plate preferred for one share of C. & O. preferred and 7/10 share of common.
(2) Exchange of each share of Nickel Plate common for 9/10 share of C. & O. common.
(3) Exchange of each share of Pere Marquette prior preference stock for one share of C. & O. preferred and 1/3 share of common.
(4) Exchange of each share of Pere Marquette 5% preferred for 8/10 share of C. & O. preferred and 4/10 share common.
(5) Exchange of each share of Pere Marquette common for ½ share of C. & O. common.
(6) Exchange of each share of Wheeling & Lake Erie 5½% preferred for one share of C. & O. preferred.
(7) Exchange of each share of Wheeling & Lake Erie common for 1½ shares of C. & O. common.
(8) Exchange of each share of Wheeling & Lake Erie 4% prior lien stock (practically all owned by the parent C. & O.) for 1-15/100 shares of C. & O. preferred, with the final possibility of a cash purchase offer for this small issue.

Unlike the dreams of the Van Sweringen brothers, whose projection of a new rail empire in the mid-1920's revolving around a financial pyramid of complicated finance was never realized, the present proposed consolidation of the C. & O. lines is one which is quite astonishing for its simplicity—one which can be effected in a year, or less, depending on the approval of stockholders (two-thirds assent will be required), and the final verdict of the Interstate

10-Year Record of Earnings

GREATER C. & O. SYSTEM
COMPARED WITH PRESENT COMPANY

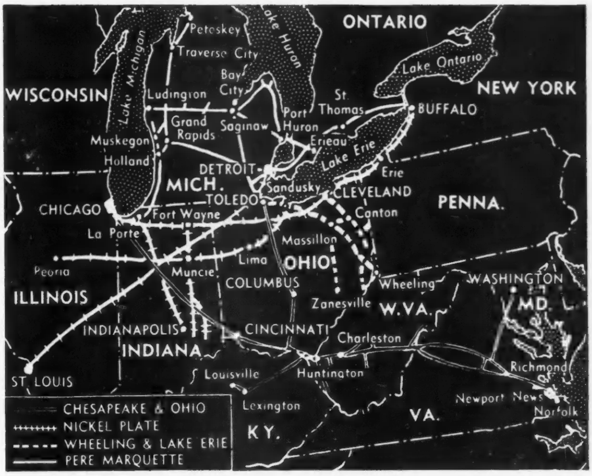
COMBINED SYSTEM	*Gross Revenues	†Available for Charges	Times Earned	†Net Income	‡Earned Pfd. Share	‡Earned Com. Share
1945**	$378,000	$56,705	3.61	$41,015	$63.35	$4.92
1944	398,399	55,103	3.49	39,304	60.71	4.71
1943	389,788	62,723	3.78	46,119	71.24	5.53
1942	339,105	65,216	3.68	47,485	73.35	5.70
1941	270,726	81,520	4.39	62,948	°7.23	7.55
1940	229,148	60,124	3.13	40,945	63.23	4.91
1939	207,049	53,938	2.63	33,391	51.58	4.00
1938	179,184	38,859	1.91	18,528	28.62	2.22
1937	217,159	61,980	2.99	41,241	63.70	4.95
1936	225,284	73,986	3.40	52,241	80.69	6.27
1935	190,251	56,284	2.64	34,941	53.97	4.19
10-yr. av.	264,609	60,973	3.17	41,714	64.43	5.00
C. & O. ALONE						
1945**	$200,000	$32,006	4.50	$24,886	....	$3.25
1944	216,536	34,457	4.84	27,341	....	3.57
1943	208,513	38,758	5.24	31,359	....	4.04
1942	181,810	41,212	5.11	33,153	....	4.25
1941	150,237	52,794	6.72	44,940	....	5.79
1940	132,720	41,925	5.03	33,591	....	4.31
1939	118,722	36,862	3.87	27,343	....	3.49
1938	106,376	29,834	3.26	20,683	....	2.62
1937	127,347	43,971	4.67	34,562	....	4.43
1936	135,538	54,053	5.27	43,790	....	5.72
1935	114,031	40,805	4.18	31,039	....	4.05
10-yr. av.	149,183	41,467	4.77	32,780	....	4.28

**—Estimated.
*—In thousands.
†—Inter company stockholding dividends eliminated.
‡—Based on 647,360 shares of 3½% preferred stock; 8,326,131 common.

Commerce Commission which soon may announce the date for public hearings.

The plan for a greater Chesapeake system is not one which was quickly formulated. The announcement came only after some two years of study by the boards of the respective companies, which in 1943 had appointed sub-committees to explore merger possibilities. The announcement, moreover, followed by some two months the I. C. C.'s confirmation of the legality of Alleghany Corporation's control of the C. & O. group of roads.

Basically, the plan is fair in every respect, since it would bring into corporate existence a system which will be able to show good earnings and pay substantial dividends in the postwar years. It is sound, also, because in nearly every instance it involves the replacement of non-dividend paying preferred and common stocks with equities of assured investment quality.



(Acme)

New Preferred Stock

As approved by C. & O. directors, the exchange offer will provide for the creation of a new issue of 647,360 shares of C. & O. preferred stock of $100 par value, with a dividend rate of 3½%, fully cumulative. Each share of new preferred stock will be convertible into the common stock, at any time at the option of the holder, on the basis of 1.6 shares of common stock for each share of preferred. This fixes a conversion price of $62.50 a share for the common stock. On the basis of the proposed exchange offers, assuming full acceptance, C. & O. common stock would be outstanding in the amount of 8,326,131 shares.

As a result of the proposed unification, an added element of strength will be imparted to the securities (both bonds and stocks) of Nickel Plate, Pere Marquette and Wheeling and Lake Erie. Moreover, future refunding operations in connection with outstanding bonds of these roads would be greatly facilitated.

Strong Competitive Position

The proposed 7,190-mile system would be a formidable rival to other Eastern trunk lines. The merged company would have lines operating in nine states, serving such important mid-western centers as Chicago, Detroit, Cleveland, Toledo and St. Louis; both sides of Lake Erie to Buffalo, and the Chesapeake corridor to Norfolk and Newport News, Virginia. Combined assets, on December 31, 1944, would have approximated $1,462,000,000, while last year's combined operating revenues would have approached $400,000,000.

In Eastern trunk-line territory, the latter would have been exceeded only by the Pennsylvania and New York Central; in the West only by the Southern Pacific, Santa Fe and Union Pacific. The merger would lift C. & O. to a place among the first twelve roads from point of mileage and among the first six from point of gross revenues. With Chesapeake & Ohio as the important contributor of "Pocahontas coal," depression-proof revenues, the new system would possess widely-diversified earning power.

While true that the amalgamation would cause a dilution of C. & O.'s common stock, and place a new issue of preferred ahead of it, it would at the same time lift earnings appreciably on the basis of combined results.

Chesapeake common has received $3.50 annually (or the equivalent) in dividends in every year since 1941. This equity, on which dividends have been interrupted only twice (in 1915 and 1921) since 1898, with disbursements falling below $2.50 a share in only one year of the 1930's, most certainly will have the necessary earning power (the more so when the present high EPT is reduced, or eliminated), to pay from $3.00 to $4.00 annually. Indeed, for all purposes of analysis, the merged corporation's common dividend rate can be considered as $3.50 a year.

Investment Status of Preferred

As for the new C. & O. preferred, it would be a very strong and conservative investment, worthy of a place in nearly every type of portfolio, and it would command a price of not less than 100 in the open market. This preferred would be a cumulative issue, redeemable at 105, with an excellent sinking fund. The latter would provide the setting aside each year of an amount equal to 5% of the remaining net earnings of the preceding fiscal period, after payment of the preferred dividend, and after allowing an amount equal to (*Please turn to page* 736)

Combined System Working Capital

(000's omitted)
(As of June 30, 1945)

	C. & O.	Nickel Plate	Pere Marquette	Wheeling and Lake Erie	Combined System
Cash	$25,768	$8,349	$8,556	$5,380	$48,053
Other Cash Items	25,838	21,199	7,089	6,015	60,141
Total Curr. Assets	69,439	38,797	22,786	14,479	145,501
Accr. Tax. Liabs.	45,788	16,727	5,929	9,375	77,819
Total Curr. Liabs.	70,719	32,680	14,682	11,313	129,394
Net Work. Cap.	*1,280	6,117	8,104	3,166	16,107

*—Excess of current liabilities.

INVESTMENT AUDIT OF TECHNICOLOR

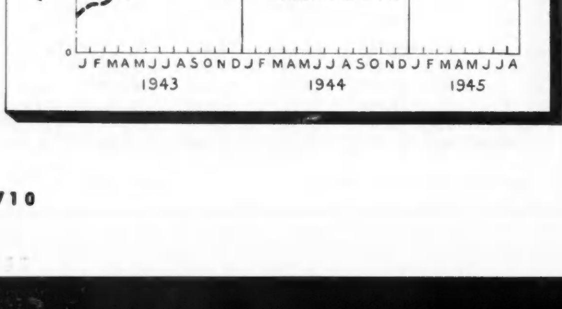
BY GEORGE W. MATHIS

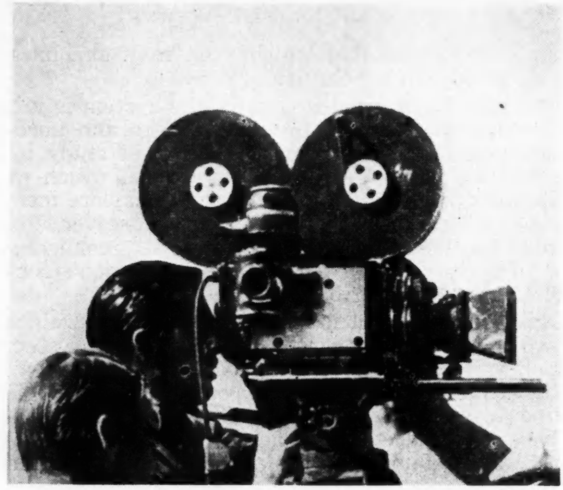
AMONG the million of movie fans viewing the war film "Fighting Lady" must have been many whose emotions were additionally stirred by the extraordinary color effects produced. Indeed, since Walt Disney first presented an improved color process in one of his "Silly Symphonies" in 1942, "Technicolor" has risen slowly but surely on a tide of popular favor to establish itself permanently in the trilogy of motion-sound-color among major pictures producers in Hollywood and abroad.

Viewed from the commercial aspect, Technicolor now has strongly marked profit potentials for the concern bearing its name and responsible for its development, as multiple patents entrench its trade position and demand far outstrips productive capacity. Reflecting these circumstances, shares of Technicolor, Inc. are selling currently at about 23 times 1944 per share net earnings, peak in this respect for any concern in the movie industry.

Early Background

Growth of this unique concern to its present status, while by no means rapid or spectacular, has resulted from the life adventure of one man with an able wife, both scientists and additionally equipped with good business ability. The product and its development, therefore, while certainly glamorous, represent a typically American success story where per-




(Acme)

sistence in the face of heavy odds has brought an idea to a point of financial eminence by the efforts of its originator. Curiously enough, the concern's first development phase began with one war and ends with another one, for the business was started by Dr. Herbert T. Kalmus in 1914, along with Dr. Daniel F. Comstock and W. Burton Westcott. In 1915 these men formed a corporation, Technicolor Motion Picture Corp., all shares of which were turned over to Technicolor, Inc. in 1922. Subsequently, a British subsidiary was organized, Technicolor, Ltd., with controlling interest vested in the Technicolor Motion Picture Corp., which has always functioned as the manufacturing unit of the business.

Early efforts to find a market for color films were very discouraging as costs were mountainous, tone values entirely too deep and the color distorted, arousing sales resistance difficult to surmount. By 1926, Dr. Kalmus had lost his two original associates, enjoyed only nominal profit, and had already spent $2.5 million which had been provided by loyal supporters. For to convince skeptical movie producers that his idea was even practical, it had been necessary for Technicolor to produce several specimen pictures of its own. As the 1929 boom approached its crescendo, however, price factors became less significant to the movie producers, and volume enjoyed a great spurt; net earnings in 1930 soared to above $800,000, only to undergo a rapid collapse because with color combinations confined to two primary colors, public appraisal of the unrealistic effect was disappointing.

Research to the Rescue

At this critical period, years of scientific research came to the rescue by adding blue as a third component, making possible for the first time a start towards the beautiful films which by degrees are revolutionizing picture taking technique. Light reflected from a photographed subject passes through a single lense to a prism and by filtration is deflected to three primary negatives, each sensitive to its respective color. From these a combined master image

is printed and developed, the basis of all the hard-won prosperity for Technicolor today.

Successful development of this new process, however, brought no immediate acclaim to its inventors, as some of the leading picture producers had lost both money and confidence through premature efforts to commercialize its predecessor. From 1931 to 1935, accordingly, Technicolor deficits totaled over $800,000, wiping out all the gains of 1930. Thanks to a few courageous clients, the attraction of the improved process became more widely known, however, and beginning with 1936, substantial profits again appeared, dividends were inaugurated and, supported by steadily increasing volume, have continued without interruption ever since.

Pertinent Statistical Data

	1939	1940	1941	1942	1943	1944
Sales ($ mill.)	$5.111	$5.103	$6.390	$5.797	$9.293	$11.194
Depreciation ($ mill.)	.181	.156	.128	.134	.133	.123
Balance for common ($ mill.)	.912	.933	.943	.370	1.103	.859
Operating margin	17.6%	20.3%	18.3%	7.5%	16.9%	13.2%
Net profit margin	17.8%	18.3%	14.7%	6.3%	11.8%	7.6%
% earned on invested capital*	17.0%	17.9%	20.0%	8.4%	23.0%	21.9%
Earned on common, per share	1.08	1.05	1.05	.41	1.22	.95
Earned on common, % of market price†	4.7%	4.5%	4.5%	1.8%	5.3%	4.1%
Dividend rate	1.00	.75	1.00	.25	.50	.50(a)
Dividend yield†	4.3%	3.2%	4.3%	1.1%	2.2%	2.2%
Current asset value, per share**	$4.30	$4.86	$4.83	$4.71	$6.57	$7.65
Book value per share	$5.47	$6.05	$6.09	$6.27	$7.04	$7.50
Net current asset value, per share**	$3.35	$3.95	$3.84	$4.01	$4.91	$5.13
Cash asset value per share	$3.49	$4.16	$3.78	$3.39	$4.66	$5.81
Current ratio	4.5	5.4	4.8	6.7	3.9	3.0

*—Before provision for income taxes.
**—After prior obligations.
†—All % based on current market price of 23.
(a)—Current rate indicates $1 div. for 1945; a yield of 4.5%.

Virtually Non-Competitive

The current position of this concern as a practically non-competitive supplier to one of the nation's major industries is extremely interesting. About 300 patents are tucked away in its vaults, covering every element of its unique processes and equipment, and the "know how" gained through long experimentation is by no means confined to the printing and developing of film, as color photography enforces studio techniques quite different from those employed in taking black-and-white pictures. For this reason, Technicolor special cameras must be leased, and before they are used, the trained services of Mrs. Kalmus and her specialists are essential in the selection of materials for costumes, proper makeup, lighting effects and to coach the photographers in making their shots. As matters stand at present, about 95% of color processing for the movie producers is done by Technicolor, the one dependable source, and demand has reached truly embarrassing proportions. While whispers of approaching competition from du Pont and a few other sources are heard, nothing tangible has developed; it would take a lot of courage for an outsider to invade the field.

Capacity of the Hollywood plant normally is rated at about 140 million feet of film annually, but under combined pressure from the armed services and the movie industry, 1944 production reached a record high of nearly 162 million feet, attesting to a remarkable degree of operating efficiency. Growth of the business may be surmised by comparing a 1932 production of only 5.5 million feet, rising steadily, except for 1942 when film supplies became scant, to 125.7 million feet in 1943. Last year, 29 feature length pictures were done in Technicolor, bringing gross receipts by the company to a peak of $11,194,380. Most promising of all, contracts have already been signed for servicing 35 new pictures annually for the next three years, booking the company to present capacity, and then some, until the end of 1948.

Few concerns in the country are so well assured of expanding volume in postwar, and Technicolor has no reconversion problems to delay its progress. In Britain, ample proof that the growth trend is not limited to the United States is afforded by the company's affiliate, Technicolor, Ltd., which in 1944 photographed four features and sold 33 million feet of film, representing an increase of 33% over 1943.

To meet obvious needs for expansion, Technicolor has purchased a large tract of land close to its present premises, and plans the immediate construction of a new plant to double its capacity. Through substantial earnings retained in the business and a $2.5 million serial loan arranged with a Western bank, the company has (*Please turn to page 734*)

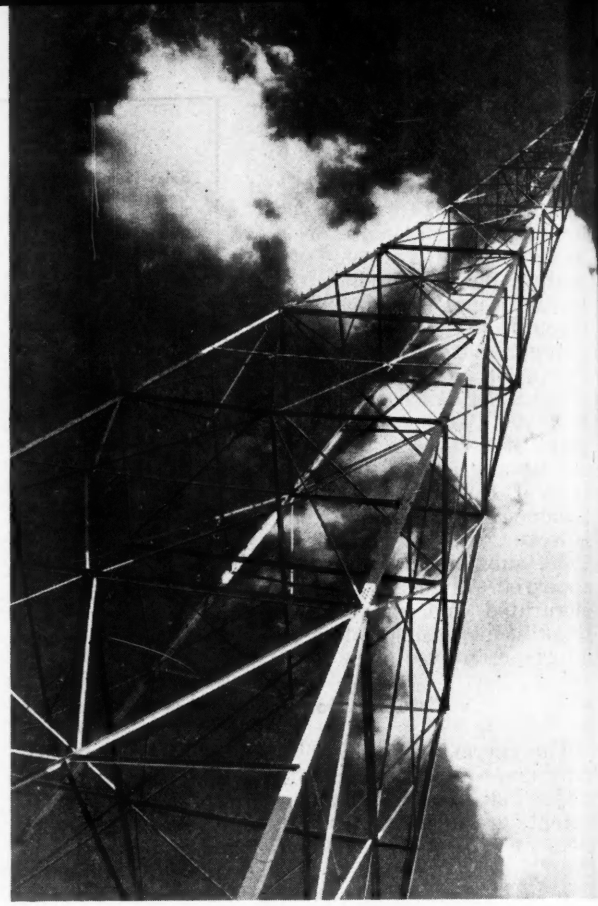
Comparative Balance Sheet Data

($ millions)

	1941	1944	Change
ASSETS			
Cash	3.403	3.518	+.115
U. S. securities	......	1.740	+1.740
Receivables, net	.595	.833	+.238
Inventories, net	.353	.596	+.243
Other current assets	......	......	......
TOTAL CURRENT ASSETS	4.351	6.687	+2.336
Plant and equipment	3.049	3.521	+.472
Less depreciation	1.548	1.905	+.357
Net property	1.501	1.616	+.115
Other assets	2.731	2.763	+.032
TOTAL ASSETS	8.583	11.066	+2.483
LIABILITIES			
Accounts payable and accruals	.285	1.001	+.716
Reserve for taxes	.606	1.272	+.666
Other current liabilities	......	......	......
TOTAL CURRENT LIABILITIES	.891	2.273	+1.382
Deferred liabilities	.200	.025	—.175
Reserves	.004	......	—.004
Capital	6.542	6.669	+.127
Surplus	.946	2.099	+1.153
TOTAL LIABILITIES	8.583	11.066	+2.483
WORKING CAPITAL	3.460	4.414	+.954
Current Ratio	4.8	3.0	—1.8

REALISTIC SURVEY *of the* RADIO INDUSTRY

BY EDWIN A. BARNES



THE honor of being the first of our big manufacturing industries to attain full scale reconversion to a peacetime status may well be claimed by the radio industry. Less than a month after V-J Day, the industry is found straining every production sinew in an effort to have some of its wares in the shops for Christmas. At best, however, only a small segment of potential buyers will have a new radio set this Yuletide; the rest of us will have to wait until next year. And it will be during the next year or two that the radio industry will have an adequate opportunity to meet the huge pent-up demand, and capitalize upon the tremendous scientific strides made under urgency of war needs.

Twenty years of normal research were concentrated in the four war years. Not only was the day of ultimate perfection in television and frequency modulation broadcasting brought years closer, but many new and extremely valuable devices and instruments utilizing the vacuum tube were developed. These latter will mean new markets and greater diversification for the industry. More immediately, however, the industry's most promising prospects lie in the long deferred demand for radio receiving sets and equipment.

Big Markets Loom

According to the Bureau of Census, the radio industry in 1939, the last pre-war year, produced radio receiving and transmitting sets and tubes, television sets, phonographs, accessories and associated equipment to the value of $275,870,165. It is estimated that about two-thirds of this latter figure was for radio receiving sets. Just what the immediate potential demand for new radio receiving apparatus is at the present time is hard to say and estimates from reliable sources have ranged all the way from 5,000,000 to 25,000,000 sets. Last March the director of sales research of Sylvania Electric Products predicted that within the first five or six years following total victory, American families would purchase new radios to the tune of 100,000,000 sets! It is not necessary, however, to accept the more optimistic of current estimates (although they are not necessarily outside the realm of possibilities) to appreciate that the industry has in store for it several years, at least, of business substantially larger in volume and value than it experienced in any pre-war year.

Philco Corp. estimated the potential demand at 25,000,000 sets. This is twice as many sets as the industry produced in its biggest peacetime year. There are undoubtedly many sets still in use at this time which will be abandoned once new models are available. Many users will not be aware of the degree of obsolescence which has occurred until they have had an opportunity to compare their sets with the new product. Improved tonal qualities and sharper tuning will most certainly be present in the new sets.

FM Broadcasting and Television

Frequency modulation — staticless reception — can be counted on to provide a strong selling force, as previously this feature was available on only a limited number of sets, and FM broadcasting was confined to a comparatively few large urban areas. The Federal Communications Commission is preparing to license FM broadcasters on the newly established FM commercial band. Old sets equipped for FM reception will not be able to receive broadcasts originating on the new band. To overcome this threat to customer good will, a device has been developed to permit present FM broadcasters to emit simultaneously the old and new frequency during the interim period of changeover.

What about television? For some years now television has been hailed as everything from the greatest scientific marvel of the age to the death knell of the motion picture industry, but so far the public has seen very little of it and what it has seen has

failed to live up to expectations born of ill-timed ballyhoo. Television is the child prodigy of the radio industry and is growing up—albeit somewhat slowly. At the present time, there are only nine stations broadcasting television within a local range. Nor is television broadcasting on a national scope comparable with present networks an early possibility. An official of the Columbia Broadcasting System recently stated that it would be at least two years before the public could expect national television, and longer before it became international.

Battle of the Spectrum

Meanwhile two giants of the industry are locked in a competitive struggle which promises to have a very important bearing upon the future progress of television. Columbia Broadcasting advocates moving television "upstairs" to the ultrahigh wave lengths. In this area of the radio spectrum, Columbia is hopeful that not only will much sharper black and white images be possible, but color broadcasting as well. The company will in the near future place a pilot transmitter in operation and will also spot a number of receiving sets at strategic points to demonstrate its contention of superiority over the standard broadcasts now being made.

Radio Corp. of America, on the other hand, has a heavy investment in standard television and was recently assigned six channels in the lower spectrum by the FCC. Apparently Radio Corp., is anxious to cash in on the public impatience for some practical evidence of television, while Columbia is equally anxious to prove its point before too many standard television receiving sets are in the hands of the public. Should color broadcasting prove feasible, it would still be difficult to obtain widespread acceptance if it materializes after the public has already made a large investment in standard television sets. The present standard type set would be unable to receive programs broadcast on the higher wave lengths.

Potentially, television is without doubt the greatest reporting medium. The time will come when the owner of a television set may witness the nation's greatest sporting events, political gatherings, parades, etc., from the comfort of his own home. Some types of programs such as quizzes, comedy and symphonic and popular music can be given television treatment without much change in the form in which they are now broadcast. Others will require new production techniques, while the art of television will make possible the creation of new types of programs not now feasible. It is to be doubted that television will ever be on the air for the same extended periods of time which are now a part of the regular day to day broadcasting schedules. Aural broadcasting permits the listener to otherwise occupy himself during the broadcast, if he so desires. Television requires the "listener" to sit down and give it his undivided attention. The housewife would have to stop her work and the husband would have to put aside his newspaper. This means that to achieve any real measure of commercial success, television broadcasters will have to set a very high standard of program production to insure audience attention. And this brings up a sort of chicken and egg problem.

To attain a national status, television will require the commercial support of advertisers. But before advertisers will shell out their money, they want to be certain that they are going to have a large audience to view their program and hear their sales talks. Just how this dilemma will be overcome remains to be seen. It may be that some system of assessing owners of television sets may have to be devised to subsidize programs until advertisers are satisfied that it is a medium warranting their financial support.

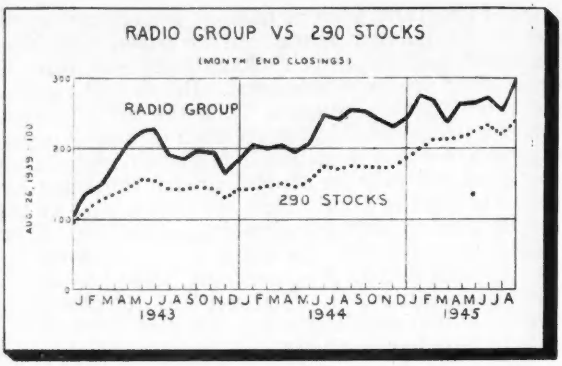
A national network of television programs would require the establishment of radio relays or the construction of coaxial cable facilities—possibly a combination of both. The cost would be considerable in any case. Announcement was recently made jointly by Westinghouse Electric and Glenn L. Martin Co., that they have blueprints for the broadcasting of television and FM programs from planes six miles up in the air. From that height, they believe, it would be possible to reach 78 per cent of the national population by using only fourteen planes spotted at selected places throughout the country.

As has been said, television is growing up but it is still a long way from maturity. As a potential of the radio industry it is unquestionably an exciting one, but before it is likely to contribute anything sub-

Statistical Position of Leading Radio Shares

	In Dollars Per Common Share										
	Book Value	Net Current Assets*	Cash Items	1936-9 Avge. Net	1944 Net	1936-9 Avge. Div.	1944 Div.	Div. Yield	1944-45 Price Range	Recent Price	Price Earnings Ratio
Emerson Radio	$8.82	$7.01	$11.23	Not Avail.	$1.82	Not Avail.	$ .90	3.8%	25 -12	23½	12.9
Farnsworth Television	3.93	2.81	3.78	def 0.53(c)	.68 Ap	Nil	Nil	......	16⅝- 9¾	15½	22.7
Hazeltine Corp.	16.83	12.72	22.85	3.27	4.98	3.37	2.25	6.8	36½-26¼	33	6.6
Philco Corp.	16.96	11.80	22.79	......(a)	2.87	......(a)	1.20	3.1	40 -24⅞	38⅝	13.4
Radio Corp. of Amer.	4.90	3.08	6.92	.32	.51	.10	.20	1.2	16¾- 8¾	16	31.3
Raytheon Mfg. (f)	6.45	2.14	1.55	.09	3.59	Nil	Nil	......	(e)23⅜-17⅜	18⅞	5.2
Stromberg Carlson	27.34	11.49	10.19	.34	2.97	.16	.75	3.4	20⅛- 9⅜	22¼	7.4
Sylvania Elec. Prod.	20.73	12.92	18.57	1.63 b)	2.04	1.15(b)	1.25	3.3	37⅜-26¾	37⅛	18.2
Zenith Radio	20.47	14.62	17.64	2.24	3.37 Ap	.75	1.00	2.6	44½-33¾	38½	11.4

*—After prior obligations.
(a)—Present common issued in 1940; 1937-9 average earnings as applied to present capitalization were $.38.
(b)—Adjusted to reflect 2-for-1 split in 1941.
Ap—Year ended April 30, 1945.
(c)—1939 only.
(e)—Since 200% stock div. in Feb. 1945.
(f)—All figures adjusted to reflect 200% stock div. paid in Feb. 1945.



stantial in the way of financial returns, the industry must be prepared to spend many more millions of dollars on its development and exploitation.

But it is not necessary to keep the sights of the radio industry raised to see good game ahead. Just to bag the market for radio receiving and radio phonograph sets will insure many months of capacity operations and for some companies—substantial financial gains. It is to be doubted, however, that the optimism with which a lot of new manufacturers are entering the field will be justified by the results in their ledgers. Some 150 manufacturers, many seeking to exploit their wartime experience in radio and electronics, have indicated their intention of manufacturing radio receiving sets. Prior to the war there were about 80 manufacturers, and only a handful of these attained any real earning power. In the inevitable competitive struggle, the best bets for the investor are those companies whose products have already attained considerable public recognition and where such advantages as technical knowledge and experience, an established sales organization and ample finances assure them a full share of the big markets for radio and electronic products.

Prospects for Export Sales

Any appraisal of the outlook for the radio industry would be incomplete without giving recognition to the export prospects. Normally export sales account for about 8 per cent of the value of the industry's output. It is reasonable to presume that proportionately the pent-up demand in foreign markets, particularly South America and Canada, is on a par with that here. American receiving sets enjoy the prestige of superior quality among foreign users and it is a safe assumption that these markets will again be available to American manufacturers—when they have enough production to make equipment available for export.

The fact that the radio industry has been able to swing swiftly and smoothly into high reconversion gear reflects such advantages as an adequate pool of trained personnel; no retooling or plant rearrangement was required, and the difference between the type of product used by the military forces and that to be offered the public was such that the changeover could be made with the minimum disruption. New designs and improvements were already perfected. It only remained for the industry to get the green light to resume civilian output on a large scale.

Some of the companies which appear to be well favored by the advantages which have been listed are briefly highlighted below:

Although one of the smaller manufacturers of radio receiving sets, EMERSON RADIO & PHONOGRAPH CO. has enjoyed better-than-average competitive progress, through specializing in the smaller low price sets. In each of the three years prior to 1942, sales topped one million sets. Company is reported to have four models ready for the holiday trade and plans eventually to have fifty-eight models, including television sets. Latest reported earnings are for the six months to May 5 last, and were equal to $1.29 a share for the 400,000 shares of capital stock. As a speculative vehicle, the shares have merit.

The best showing in its history was made by FARNSWORTH TELEVISION & RADIO in the fiscal year ended April 30 last when net of $953,385, or 67 cents a share was shown. Prior to the war the company had no earning power. Products include the Farnsworth and Capehart receiving sets. The company is also planning to manufacture various electronic products, but its greatest potentialities would seem to lie in its primary field of television. Shares must be rated as highly speculative.

Income of HAZELTINE CORP. is derived mainly from royalties on basic patents in the radio and television field held by the company. Earnings in recent years have been quite substantial but trend of profits over the near term is problematical. Doubts in this respect probably account for the current low price-earnings ratio.

PHILCO CORP. is the largest manufacturer of radio receiving sets and these account for about 70 per cent of the company's volume. Other products include electric refrigerators, freezing chests, air conditioning equipment and storage batteries. On the strength of the company's established trade position and consumer acceptance accorded its products, it would appear assured a full share of the big market over the months ahead. Earnings in the first half of this year were equal to $1.20 a share, a moderate decline from the level a year ago. Dividends of at least 20 cents quarterly may be expected and the shares invite favorable speculative consideration.

RADIO CORP. OF AMERICA has long been the most prominent company identified with the radio industry and the field of electronics generally. It holds many basic patents and engages in extensive manufacturing and research activities. The company's shares have always contained a considerable element of "romance" which in a large measure explains the consistently high price-earnings ratio at which they sell, despite the fact that earnings have been quite modest and dividends have never been in excess of 20 cents a share annually. For their speculative appeal the shares depend mainly on the company's prominence in a dynamic and growing industry.

Under the stimulus of demand for radar and other communication devices and equipment by the armed forces, earnings of RAYTHEON MFG. CO., recorded spectacular wartime gains. Previous earning power, however, was unimpressive. The company has acquired control of Belmont Radio and will enter the radio receiving set field. (*Please turn to page* 729)

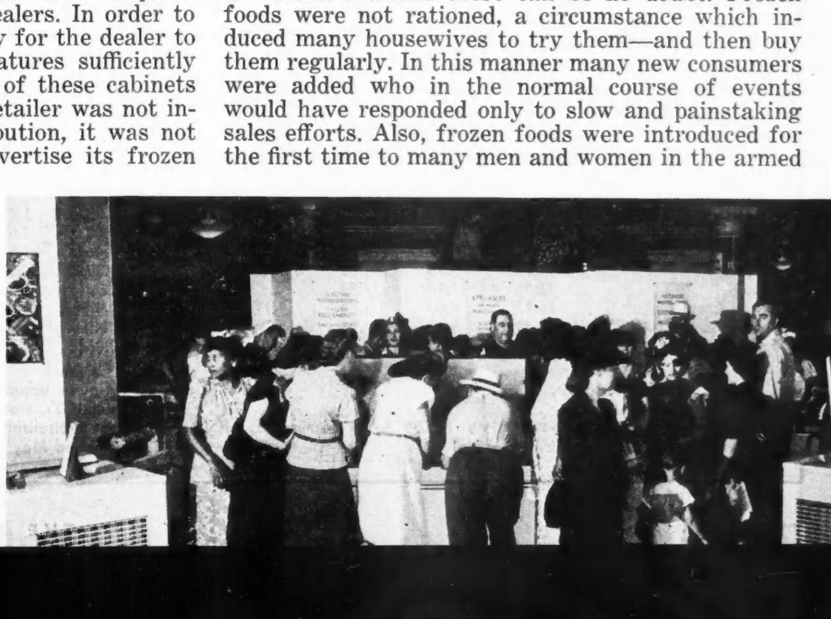
Postwar Potentials Of Frozen Food Industry

BY RICHARD COLSTON

FOR the frozen food and related industries, the end of the war means that the era of greatest growth, which had barely started in the late '30's, will now be resumed, and at a pace which should be accelerated by improved techniques and wider public acceptance. Forecasts made by responsible sources identified with the frozen food industry indicate a ten-fold increase in the number of retail outlets during the next five years; sales which amounted to $250,000,000 in the best pre-war year may rise to $10,000,000,000 annually by 1955; and in time it is expected that 65 per cent of all perishable food will be preserved by quick freezing. It would be possible to make generous allowance for the customary optimism of trade interests in these forecasts and still find, in the outlook, adequate support for the dynamic growth potentialities attributed to the industry.

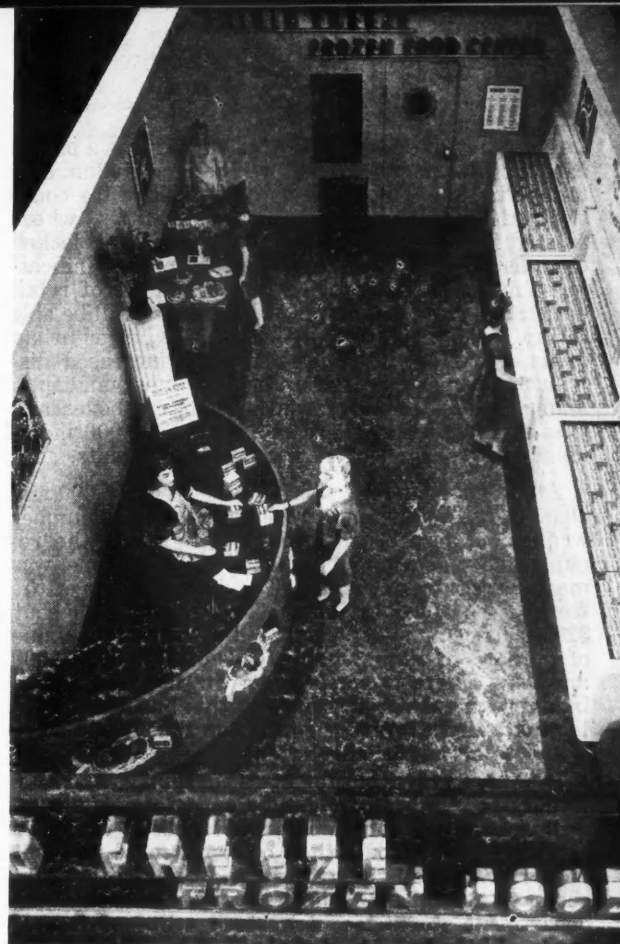
Refrigeration Industry's Role

Aiding, abetting and sharing in these potentialities is another industry—the refrigeration industry. In fact to the frozen foods industry, the refrigeration industry is what the locomotive and car building industries are to the railroads, the highways to the automobile, and the sewing machine to the clothing manufacturing industry. It was fifteen years ago that General Foods first introduced frozen foods in small retail packages. These frozen vegetables and berries met with almost instant success, but their distribution was of necessity limited to a comparatively small number of selected dealers. In order to stock frozen foods it was necessary for the dealer to have an ice cabinet with temperatures sufficiently low to prevent melting. The first of these cabinets were expensive and the average retailer was not interested. Lacking sufficient distribution, it was not feasible for General Foods to advertise its frozen products and growth of this young industry in those days was tryingly slow. But in time the cost of storage cabinets was substantially lowered and means were found to finance their ready purchase by retailers. From then on new outlets expanded at an increasingly rapid rate.



Display of Frozen Food Cabinets at R. H. Macy & Co.

Courtesy of Refrigeration Corp. of America



Most of the leading manufacturers of refrigeration equipment are planning to introduce a full line of frozen food cabinets, lockers and home freezing units as rapidly as materials and machinery can be made available. These new products will not only give important impetus to the frozen food industry, but they will be brought into a market in which considerable educational and sales work has already been accomplished. A large backlog of orders has accumulated, and once buyers are able to view samples of the actual product, demand should be translated into buying.

That consumption of frozen foods is destined for a marked increase there can be no doubt. Frozen foods were not rationed, a circumstance which induced many housewives to try them—and then buy them regularly. In this manner many new consumers were added who in the normal course of events would have responded only to slow and painstaking sales efforts. Also, frozen foods were introduced for the first time to many men and women in the armed

forces. They liked what they tasted and it is a pretty safe bet that many of them will become civilian customers in time. There are many sections of the country, particularly medium size communities, where frosted foods are either not available or still looked upon as a novelty. With competent surveys indicating a nationwide expansion in the number of retail outlets handling frozen foods, processors will be able to tap these fertile fields. Even in the larger urban areas, there is still much room for increased distributing facilities and effective merchandising. Many families already own cold storage boxes and it is estimated that there are some 2,000,000 individual cold storage lockers in community plants.

At the present time there are between 35,000 and 40,000 stores handling frozen foods. This number would doubtless be substantially higher if the required storage cabinets were available. None was made during the war years. The dollar volume of the frozen foods business at the present time is about $200,000,000 annually, compared with the total value of the sales of all perishable foods of $17,000,000,000 annually. There is ample room for the frozen food industry to enlarge its share of this business and it is practically a foregone conclusion that it will do so —and to an appreciable extent.

In making their bid for mass consuming markets, frozen foods processors can be expected to follow a well defined program. With retail outlets, increased to 100,000 they would then be represented in about 25 per cent of all the grocery and combination grocery and meat markets in the country. Many leading department stores too, now stock a line of frosted foods. With broader distribution and with more processors in the field to exert competitive pressure, prices will probably be brought down to the present price range of first grade canned goods. The higher prices of frozen foods have placed them at a competitive disadvantage and many a housewife who might otherwise have been persuaded to try them has passed them by in favor of the canned or fresh product. Also making for a gradual lowering of prices should be the increased efficiency in handling

and packing made possible by improved equipment soon to be made available.

With most manufacturers of refrigerators planning to incorporate cold storage compartments in new models, as well as offering family size storage cabinets at less than $200, it should be possible to broaden the distribution of frozen foods by direct home deliveries—in the same manner that milk and other dairy products are distributed. Earlier experiments along this line did not meet with much success because housewives did not have any means of storing their purchases against the time when they would be used. With a cold storage compartment or cabinet, frozen foods may be kept indefinitely. Even should there be a temporary break-down in power facilities, tests have shown that frozen foods would be unaffected for several days.

Still another stimulus to the development of a mass market should be the substantial increase in the number of frozen food products. At the present time there are about 75. In the near future there will be some 200 varieties, including an extensive line of pre-cooked foods, (*Please turn to page* 730)

Statistical Position of Companies Likely to Be Prominent in Frozen Food Merchandising

	In Dollars Per Common Share										
	Book Value	Net Current Assets*	Cash Items	1936-9 Avge. Net	1944 Net	1936-9 Avge. Div.	1944 Div.	Div. Yield	1944-45 Price Range	Recent Price	Price Earnings Ratio
General Foods	$16.89	$11.03	$3.52	$2.45	$2.14	$2.13	$1.60	3.4%	48¾-40	46¼	21.6
Stokely-Van Camp	12.87	5.48	3.27	def .07	3.48 My	.35	......(f)	......	21¼- 9¼	21	6.0
Standard Brands	19.81	10.04	4.42	2.97	2.59	2.70	1.00	2.5	40⅞-27¾	40¼	14.8
Libby, McNeil & Libby	11.86	7.26	4.32	.50	.87	.60	.50	5.2	10 - 6⅝	9⅝	11.0
IMPORTANT MANUFACTURERS OF QUICK FREEZING EQUIPMENT											
General Electric	12.17	8.03	15.42	1.53	1.76	1.55	1.40	2.8	49⅝-35	49½	28.1
Westinghouse Electric (a)	21.10	14.54	12.71	1.46	2.06	1.09	1.00	2.7	37⅞-31⅛	36¾	17.8
Borg-Warner	26.87	18.22	19.33	3.29	3.42	1.46	1.60	3.4	48⅜-34½	47⅜	13.8
Nash-Kelvinator	11.73	8.16	8.13	def .43(b)	.71	.37	.50	2.3	22¾-11½	21⅜	30.1
Philco	16.96	11.80	22.79	......(e)	2.87	......(e)	1.20	3.1	40 -24⅞	38⅜	13.3
Carrier Corp.	15.75	4.60	2.73	.17	2.83	Nil	Nil	......	30 - 17⅜	28⅝	10.1
York Corp.	13.49	6.13	4.94	def 1.04	.78	Nil	.30	1.5	19⅜- 9¼	19	24.3
Motor Products	22.69	14.02	28.26	1.56	2.87	2.06(c)	1.00	3.2	32 -15½	31¼	10.9

*—After prior obligations.
(a)—All figures adjusted to reflect 4-for-1 split May, 1945.
(b)—1937-9 Avge.
(c)—Excl. of 100% stock div. in Feb. 1936.
(e)—Present common issued in 1940. 1937-9 Avge. earnings as applied to present capitalization were $.38.
(f)—10% stock div. paid in Sept. 1944.
My—Year ended May 31, 1945.

How Companies Fare Under War Contract Cancellation

BY WARREN BEECHER

NEVER before has a major portion of industry been faced with such an abrupt collapse of productive activity as followed immediately upon the heels of the Japanese surrender. Overnight, the lightning of military cancellations split huge backlogs of Government orders to meagre proportions or wiped them out entirely, and the end is not yet. At the turn of the year, it is believed that contract terminations will total the enormous sum of about $47 billion. Even by the middle of August the Army had slashed 92,000 outstanding contracts by $23.5 billion, to which must be added $9 billion cancellations by the Navy, making a grand total of $31 billion. The impact, quantitatively, is more than ten times as severe as after the last war, when contract terminations amounted to a relatively modest $4 billion.

Situation Still in Flux

Just how drastically the blow has affected individual concerns cannot be determined yet, nor—with the situation still in a state of flux—can backlogs still remaining tell a significant story, for the upheaval is progressive and with every day that passes a billion dollars here and several billions there make a lot of difference in such scattered reports as become available; ever since V-J Day, in fact, cancellations have begun to pile up. Thanks to a recent regulation of the Securities and Exchange Commission, many large concerns with listed securities now have to report their military cancellations and remaining backlogs of the same kind, but as these records are forthcoming only at quarterly intervals, the picture presented is far from complete, as many further changes may have occurred since their compilation. With corresponding reservations, the appended table will at least illustrate how broadly and emphatically termination of military contracts has affected production schedules of a variety of war-active concerns, as well as provide some clues bearing on near-term operations during transition.

Tied in with occasional reports released by concerns enjoying civilian backlogs as an offset to now vanishing military orders, the general picture becomes more illuminating, but competitive strategy limits the number of such reports available for study. On the other hand, postwar potentials for the various industries have increasingly engaged the attention of analysts for a long time past, so that, broadly viewed, the current industrial earthquake is something fully anticipated, and within months it will appear only as a transient landmark in the upsurge to a new prosperity. Its impact, however, brings to the front realistically many conjectures heretofore evolved, and their application to facts now unfolding enhances interest in the rapidly changing scene.

All sections of the country, as well as a multitude of industries not classed as munition makers, are in the same boat with other areas and manufacturers of guns, planes, tanks and ammunition, when it comes to feeling the effect of contract terminations, for military procurement included huge amounts of food, clothing and innumerable small items which would require volumes to define. Quite naturally, the impact is felt more heavily by makers of weapons, aircraft and ships than by other industries, although the suppliers of raw materials for strictly military items share the burden importantly, for the nation's stockpile of fighting equipment assumed tremendous proportions with the cessation of hostilities.

Quick Cancellations

For this reason, the War Department immediately took steps to cancel all major contracts for the above mentioned items, except those essential for experimental or development purposes, the percentage of terminations in this category running up to 94%. On the other hand, for some time to come, millions of soldiers will have to be clothed and fed, so that contracts for food have been reduced only about 20% although measured in dollars this represents several hundred millions of dollars per month. Generally speaking, therefore, certain industries and their components differ widely in their contractual experiences.

Makers of aircraft generally felt the brunt of contract terminations at its peak force, as war demand had inflated capacity twenty times over compared with prewar, and an abrupt return to normal expectancies, improved as these are by worldwide development of aeronautics, involves tremendous readjustments. Included among regular producers of aircraft are the numerous automobile manfacturers which so ably converted their facilities to swell the production of planes. For the aircraft industry proper, physical reconversion involves no serious problems except where plans to add new and unrelated lines entail necessary complications, but the inevitable contraction in volume so abruptly thrust upon them presents a major economic problem. In scanning the table it will be noticed that both as to reported terminations and remaining backlogs of military character, the figures bulk huge compared with other industries.

Contract Cancellations and Remaining War Order Backlogs

AS REPORTED BY SEC

(Millions of $)

	Cancellations	Remaining War Contracts	1944 Sales
Boeing Airplane Co.	1050.0	102.6	608.1
Lockheed Aircraft	224.9	151.0	602.5
Douglas Aircraft	525.0	175.0	1061.4
Grumman Aircraft Eng.	240.0	141.0	305.1
N. Y. Shipbuilding	77.0	97.0	172.9
Newport News Shipbuilding	95.3	86.3	146.0
Northrop Aircraft	62.3	62.5	88.0
Wheeling Steel	53.8	53.8	135.1
Sylvania Electric Products	42.5	42.5	101.5
Servel	41.4	41.4	58.0
Republic Aviation	242.0	37.0	369.6
Fruehauf Trailer	27.1	27.1	68.9
Savage Arms	25.6	25.8	37.5
U. S. Hoffman Machinery	5.7	15.6	20.4
Zenith Radio	53.7	4.9	61.3
Emerson Radio	7.6	12.2	23.0
Goldfield Consolidated Mines	8.9	3.5	3.1
Midwest Piping and Sup.	11.7	11.7	19.4
Menasco Manufacturing	9.6	11.2	16.6
Fairchild Camera & Instrument	14.0	11.0	41.7
Farnsworth Tel. & Radio	12.4	10.1	33.9
Magnavox	8.5	9.9	14.7
Beech Aircraft	23.5	6.9	107.3
National Gypsum	4.6	4.6	24.2
American Type Founders	9.0	4.5	48.2
Crosley	27.5	7.0	98.1
Hudson Motor	69.7	.7	88.5
Le Tourneau	13.8	.7	42.2
Graham Paige	31.4	.55	43.0
Allied Products	2.8	.3	11.2
General Motors	1981.0	411.0	4262.2
Eureka Vacuum Cleaner	3.9	5.7	9.2
International Silver	19.0	.5	38.3
Berkey & Gay Furniture	3.0	.39	1.9
Mullins Manufacturing	9.7	4.4	40.6
Aviation Corporation	24.7	3.6	61.3
Central Foundry	2.9	2.9	3.7
General Bronze	7.0	2.5	19.4
General Time Instrument	12.9	1.5	24.6
National Can	4.6	1.5	12.1
Blumenthal, Sidney, & Co.	1.9	——	19.3(a)
American Central Manufacturing	5.7	.18	30.9
Lionel Corp.	1.6	.65	8.0
Diamond T Motor	88.7	.55	93.7
Iron Fireman	7.5	.50	18.7
American Coach & Body	4.8	.46	5.6
Consolidated Vultee Aircraft	243.0	256.0	960.0
Martin, Glenn L.	413.2	180.3	533.4
Ryan Aero	51.0	27.0	40.0
Admiral Corp.	5.2	12.3	42.1

(a)—Calendar year 1942; later years not available.

Yet in the final analysis, postwar demand for airplanes promises to provide the industry with a potential volume running as high as perhaps $1 billion annually, as demand for civilian planes will expand rapidly and technological improvements even now have rendered obsolete most of the military planes now in use. Commercial airlines already have contracted for some 500 transport planes, and as a partial offset to military cancellations, the Armed Services hint at new orders in the offing amounting to over $650 million to maintain our air force at up-to-date standards.

While fortune will favor certain aircraft makers more than others in the near future, the present situation is decidedly confused and problems are mounting. Luckily, along with contract terminations will come a flood of Government cash within weeks to settle for all production both completed and in process; otherwise the going would be tough indeed, as long delays and heavy experimental costs must attend the development of new models.

Douglas Aircraft

In this connection, a recent report by Douglas Aircraft in many ways may be regarded as typical of other concerns. The military backlog of Douglas of $1,825 million near the war's end was sliced to $135 million by September 15, and will probably drop to a residue of $50 million in experimental work by December 15. And profit margins on experimental work are slim at best. Furthermore a commercial backlog of $129 million had shrunk through additional cancellations by airlines to about $101 million, as the drastic contraction of military output by Douglas had raised unit costs by about 50% to a point unacceptable to the commercial airlines. These same potential customers for Douglas C-74 transports have cancelled orders for 40 four-engined planes of this type, valued at $15 million, because they hope to buy them at a lower price when the Government carries out its intention to offer 200 of them at public sale.

Many Cross Currents

Cross currents affecting backlogs of all aircraft makers accordingly seem likely to cloud the true picture, and so complex are they that some months, at least, will be required before adequate appraisals will become possible. Constructively, most aircraft makers have plenty of cash and some, like Consolidated Vultee's Stinson division with a backlog of 1500 orders for private planes in the $5000 class, are going to be kept very busy compared with prewar. Abandonment of aircraft production by the automobile makers is a blessing to this industry as demand for cars provides an immediate and more profitable substitute after reconversion. Strong units in the regular aircraft industry should share in a volume far exceeding prewar levels, and in the longer run their future prospects are encouraging, if not bright.

Transitional problems arising from contract termination are not as serious for many industries as they are for the aircraft industry, and in most instances the broad aspect of deferred normal demand is so clearly marked that (*Please turn to page* 731)

Opportunities for Income and Appreciation In Bonds and Preferred Stocks

BY JACKSON D. NORWOOD

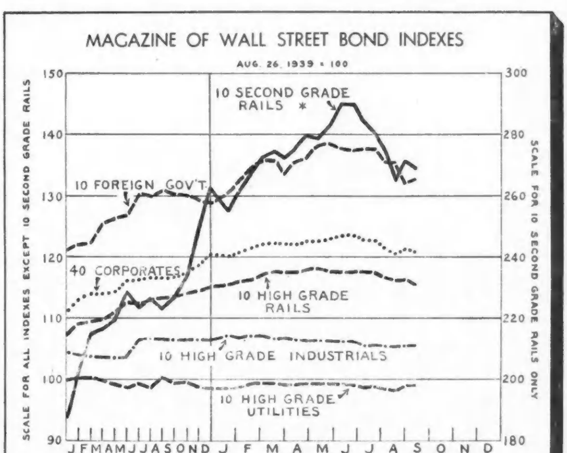
MARKET TRENDS: Fluctuations in the bond market continue restricted to a narrow range. General undertone has been one of strength. Probabilities are that new bond financing will be sustained on a large scale throughout October as underwriters hasten to clear the decks in anticipation of the forthcoming Victory Loan drive. It has been estimated that new bond flotations in September will total upwards of $800 million, and the figure for October is not expected to be much lower. The previous high volume was in October, 1944, when corporate bond financing totaled $695 million. The Victory Loan drive will terminate December 8. This will be the last of the War Loan drives and also the end of the need for concentrating new financing in months not conflicting with these drives.

With brightening prospects that investors may be given some tax relief, there appears to be some switching from municipal bonds to corporate issues yielding a better return. Prices of representative municipal issues have drifted lower. It is anticipated also that many communities and public bodies will enter the market for new funds in the not distant future.

The Magazine of Wall Street's index of bond prices showed the following changes during the period indicated:

	On Sept. 1	On Sept. 15	Net Change
Forty corporate bonds.......	121.2	120.8	— .4
Ten high grade rails........	116.3	115.5	— .8
Ten second grade rails.......	271.1	268.7	—2.4
Ten high grade utilities.....	98.7	98.8	+ .1
Ten high grade industrials..	105.5	105.6	+ .1
Ten foreign government issues	132.0	132.8	+ .8

STOKELY-VAN CAMP: Currently quoted fractionally above 20, Stokely-Van Camp 5% prior preference shares yield close to 5 per cent and are attractive on an income basis. The shares are outstanding in the amount of 335,301 and are listed on the New York Stock Exchange. Call price: 21. Stokely-Van Camp is a leading packer and canner of vegetables, fruits, fruit juices and other foods, nationally distributed under well known brand names. The company is also the second largest packer and distributor of frozen food under the familiar Honor Brand.



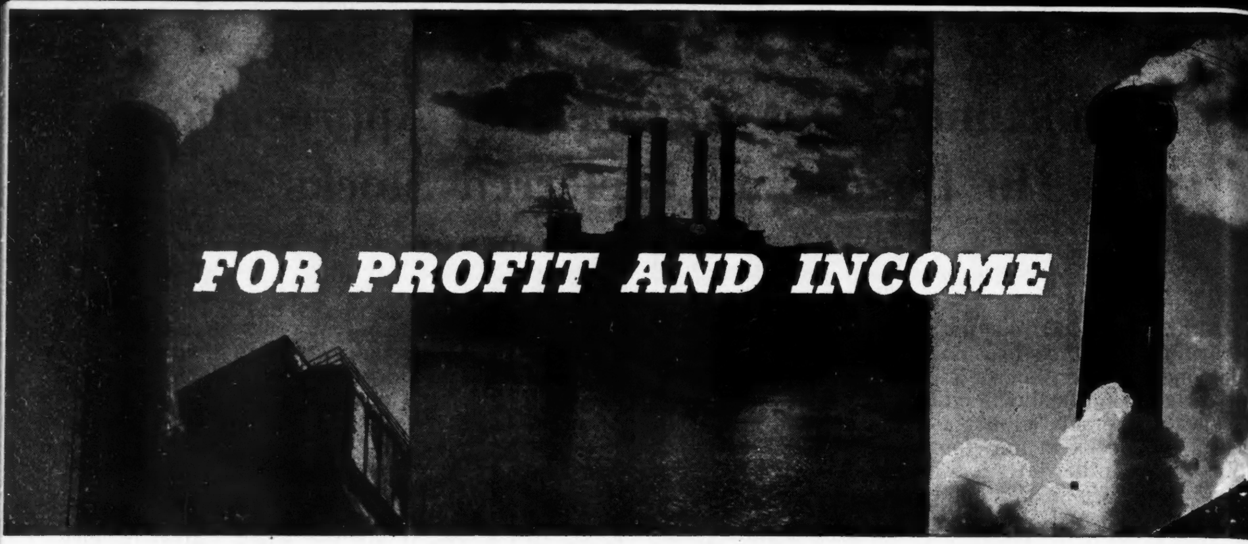
Average earnings in recent years have been sufficient to provide a substantial margin of coverage for prior preference dividends. Net available for that purpose in the fiscal year ended May 31 last, was equivalent to $9.36 a share, comparing with $8.55 in the preceding period. In other words, dividends were earned better than nine times in the most recent period. Ahead of the prior preference shares there are $3,440,000 debenture 3½'s due 1958, and there are 808,030 shares of common stock. Latest balance sheet disclosed a comfortable financial position. Total current assets, including cash of some $2,600,000, were $21,135,082, while current liabilities were less than $6,000,000.

PREFERRED STOCK SINKING FUND: Quite a number of the new issues of preferred stocks which have been offered on the market over the past several months have incorporated provisions for the operation of a sinking fund for the retirement of a specified portion of the issue yearly. Many investors may feel that the operation of such a sinking fund would tend to impart a greater measure of market stability than might otherwise be the case. Under certain circumstances this might be true.

But at some future time, many of the preferred stocks currently quoted on an unusually low yield basis will undergo a decline in value to whatever extent may be necessary to bring their relative return in line with interest rates. The current extended period of abnormally low interest rates will not last forever and when the trend reverses, it will require more than a sinking fund to sustain preferred stock price levels. Moreover, not a few of these sinking funds permit purchases for sinking fund purposes to be made in the open market, and not at a fixed or call price.

GENERAL STEEL CASTINGS 5½'s 1949: For investors seeking a dependable short term bond, yielding a better-than-average current return, General Steel Castings 5½'s 1949 merit consideration. The bonds are listed on the New York Stock Exchange and have been recently quoted at 103¾. The company engages principally in the manufacture of steel castings used in the construction of railroad locomotives, freight and passenger cars. The company also makes heavy trucks for

(Please turn to page 737)



FOR PROFIT AND INCOME

The C. I. O. Reaction

One of the oldest Wall Street maxims is: "Don't sell stocks on strike news." Nearly always, in the past, it has been observed. For instance, the shocking sit-down strikes of 1936-1937 did not unduly disturb the market. General Motors was shut down by strike for some six weeks in January - February, 1937. Over that period the market rose, and even GM common itself had a small net gain. The usual reasoning is that strikes are temporary; and that either the company can "stand" higher wages or, if not, it will eventually raise prices or take something out of the product. Yet the recent C. I. O. demands on the motor industry touched off a sizable market reaction. Why? It could be that investors are more allergic to the unions' war cries than in the past. More likely the latest of our innumerable labor crises served as excuse, rather than reason, for a technical correction, following the sharpest seven-week rise in industrials of the entire bull market to date. The subsequent rebound points that way.

Generous Company

We wouldn't go so far as to say that Black & Decker is a first-rate stock, with a glowing prospect; but one thing about the company impresses this department. It is the liberality of its wartime dividend policy. Over the three years 1942-1944 total reported earnings amounted to \$5.63 a share, while dividends amounted to \$5.20 a share: a distribution of over 92%. That would be remarkable in a stable industry, such as food or cigarettes. For a company such as this, maker of portable electric tools and fractional horsepower motors, it seems phenomenal. Best prewar net (\$2.82 a share in 1937) was above the war-period average. There may be a surplus problem in items of the Black & Decker type but the stock "acts well" near its bull market high of 30½.

The Leaders Lead

The sharp August-September advance in the Dow industrial average—about 18 points at the recent high—occasioned considerable surprise. Yet it has a fairly obvious basis. The 30 stocks in this average are those of very large companies which, in the aggregate, earned less during the war than in good peace years. In the approaching return to normal competition, such companies will fare better than many marginal enterprises, exactly reversing the wartime situation. Though there will always be "special situations," there probably will be fewer of them in peace than under war influences which produced spectacular earnings—and market action — in numerous stocks previously little known. Peace was bound to set up altered patterns of selectivity. Better demand for "old line" stocks is one of them.

A Conservative Speculation

Congoleum - Nairn, a leading maker of linoleum and felt-base floor and wall coverings, merits consideration. Deferred civilian needs for these products are large. The company is both increasing its capacity and reducing over-all unit costs by building two new plants: the last word in efficient machinery. It is reported to have developed a new method of laying linoleum, with a big

INCREASE IN EARNINGS AS INDICATED BY RECENT REPORTS

		Latest Period	Year Ago
Franklin Stores	Year June 30	\$1.46	\$1.19
Duplan Corp.	Year May 31	2.30	1.54
Grant, W. T.	6 mos. July 31	1.00	.91
National Steel Car, Ltd.	Year June 30	1.40	1.12
American Airlines	7 mos. July 31	2.56	2.18
Seeman Bros.	Year June 30	3.79	3.06
National Dept. Stores	6 mos. July 31	1.60	1.45
Engineers Public Service	12 mos. July 31	3.13	1.98
Mead Johnson & Co.	6 mos. June 30	5.02	4.82
Thermoid Co.	6 mos. June 30	.74	.47

saving in cost. Due to high taxes, net last year was only $1.48 a share. Eventually, it should considerably exceed the prewar high of $2.05. Finances are strong and the dividend record has been good, averaging about $1.90 a share for the prewar years 1934-1937, against $1.25 last year. Around 35, the current yield is about 3.6% but it would be nearly 5.4% if prewar dividend rates are restored. In each of the prewar years 1935-1937 the stock sold as much as 30% above present price.

Rayon Expansion

Despite great wartime growth in rayon capacity, a leading independent authority in the trade says there is demand in prospect for a volume double the peak wartime output. It isn't all talk. For instance, Industrial Rayon, after having just completed a $19 million plant expansion program last spring, is now planning erection of another $25 million plant in the near future. We continue to like this stock.

Building Stocks

OPA will not have a chance to muddy up the building outlook with price ceilings on homes. All War Production Board curbs on construction will be lifted Oct. 15. Price and wage increases will be allowed, if necessary to break bottlenecks. This news created renewed demand for building stocks in recent sessions. None of these stocks "looks cheap" on nearby earnings but earnings will be trending up for at least several years, the way things look now; and speculative buyers are more interested in a trend than in any given level of earnings. Building volume next year is expected to be at least 40% over this year. The best stocks—Johns-Manville and U. S. Gypsum—are now Blue Chips. Of good quality in medium price ranges are Lone Star Cement, Lehigh Portland Cement, Paraffine Companies and Ruberoid. For speculation, this department gives a nod to Flintkote, Celotex and National Gypsum.

As Atlas Moves

Back in 1942 this publication recommended Atlas Corp. warrants, at 1/4, as a cheap medium for speculating on inflation—or a market rise of any motivation. They are now at 4 3/8. There is no statistical value, but it amounts to a perpetual option on Atlas Corp. common and tends to move with this stock. Atlas is a smartly managed trust, making most of its money out of "special situations" in which it takes a controlling interest. The stock recently set a new bull market high of 19 5/8. Asset value is over 25. If the market eventually goes higher, it seems a good bet that Atlas will go along; and as Atlas goes, so go the warrants—only more so, when the matter is reduced to percentage.

Good Yield

The main thing the matter with Hiram Walker-Gooderham & Worts, Ltd., is the long and complicated name. So let's call it H. Walker. The yield on the $4 dividend, as we write, is about 5.4%. Earnings of over $9 a share are better than are likely under normal peace conditions, for the liquor business has had nearly everything its way the last several years. However, profits for prewar 1936-1939 ranged between $6.53 and $8.29, or well in excess of the $4 payment, which has been maintained since and including 1939. The stock has had a much less extreme rise than most other liquors; and, on the moderate capitalization of 721,537 shares, it may one of these days "go to town." The yield meanwhile is the most attractive in the industry.

Another Look

We noted here before that most retail stocks were tending to pause, around previous highs, while waiting some light on how far retail trade might nosedive in the reconversion period. Well, we are in the second month of peace, several million workers have been laid off and trade is still holding up better than most anybody had expected. Naturally, it isn't gaining; but it is holding very close to the extremely high year-ago level—so far. Meanwhile, as we write this, some of the stocks seem to this department to have a kind of "on your mark" look, as if ready to take off. Aside from Montgomery Ward, they're fairly free of labor-trouble angles: a consideration these days. We remain especially partial to Marshall Field and Federated Department Stores, both in moderate price ranges, both large gainers from nearby repeal of the excess profits tax.

A Low-Priced Oil

Ashland Oil & Refining, on the Curb Exchange, shapes up as a good quality speculation with possibilities. This company, operating mainly in Ohio, earned a profit even in the bleak year 1932. It has paid dividends of 40 cents a share for the past 10 years, excepting 30 cents in 1941 and 50 cents in 1936. As it was subject to a 56% tax rate last year, it is among the minority of oils with considerable to gain from EPT repeal. Since 1929, sales and assets have shown a growth trend superior to the industry average. We are not at all sure the stock is ready to move, but it looks like a sound speculative value for the longer-term.

DECLINE IN EARNINGS AS INDICATED BY RECENT REPORTS

		Latest Period	Year Ago
Gar Wood Industries	9 mos. July 31	$ .60	$ .92
Fairchild Camera & Inst.	6 mos. June 30	.82	2.06
Huyler's	Year June 30	.47	.68
Motor Products	Year June 30	2.58	2.87
Wyandotte Worsted	9 mos. Aug. 31	1.57	1.62
Park Utah Cons. Mines	6 mos. June 30	.003	.03
Smith (L. C.) & Corona	Year June 30	1.81	2.31
May Department Stores	12 mos. July 31	2.34	4.14
Reynolds Spring	9 mos. June 30	.84	1.11
Willys-Overland Motors	9 mos. June 30	.92	1.24

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities;* one request per month.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Kroger Grocery & Baking Co.

I own 100 shares of Kroger Grocery common stock which cost me 26. As this represents a good profit, I was wondering whether I should sell or hold for a further period. I am particularly interested in a stable dividend payer. What do you advise?

—*G. A., Columbus, Ohio*

Kroger Grocery operates about 2847 stores mostly concentrated in the industrial Middlewest. Despite the reduction in the number of stores from a high of 5575 in 1929 to the present number, sales have more than doubled since the depression low, and the company ranks third in sales among retail food chains. Larger sales per store have resulted from expanding the number of combination and self service markets.

Company will continue the policy of eliminating less profitable stores and expanding super service markets.

The company owns and operates bread and cracker bakeries, packing houses, dairies, coffee roasting plants, and a general manufacturing plant for producing and packing candies, spices, coffee, extracts, etc., also egg-candling plants and beverage plants. A patented process for tenderizing meats, known as "Tenderay Process' is jointly owned with Westinghouse & Manufacturing Co.

Sales for 1944 amounted to over $448 million. Earnings in 1944 amounted to $2.80 a share, compared to $2.72 in 1943 and $2.52 in 1942.

Conversion problem is practically nil and earnings during the current year are expected to continue at a favorable rate.

This company has paid dividends consecutively for 43 years.

Since stable earnings and strong finances provide good protection for the $2.00 dividend rate, this stock is recommended for retention for its good income yield of about 5%.

Sperry Corp.

What are the postwar prospects for Sperry Corp.?

—*R. S., Akron, Ohio*

Sperry Corp. will continue to work with the Army and Navy in the field of military instrumentation, but will broaden its activities to new fields and intensify its efforts in established lines, such as hydraulics and electronics, in which the company already has several developments, according to Thomas A. Morgan, president.

Immediate Sperry problems, Mr. Morgan added, are those of settling its terminated contracts as quickly as possible, and, for the first time since the war started, resuming research and development on commercial products. The executive also reported that the effect of recent war contract cancellations has reduced the company's unfilled orders from $230,000,000 on July 31 to approximately $80,000,000 on September 10. He pointed out, however, that the present backlog is not a true indication of the company's peacetime situation, inasmuch as the remaining orders represent principally war contracts.

E. G. Budd Mfg. Co.

It would be interesting to hear of the postwar prospects for E. G. Budd Mfg. Co. Any information you can furnish me will be appreciated.

—*G. E., Hazelton, Pa.*

Edward G. Budd Manufacturing Co. recently announced a revolutionary design for an all-room railway sleeping car with private, single occupancy day and night accommodations for thirty-two passengers. Construction of the new type cars is to start late this year.

The new sleeping car streamlined and built of stainless steel, is to be known as the "Budgette" to typify the low-cost day and night room service which it will provide. It is intended to replace the old-fashioned open-berth sleeper.

In doing this, it provides private-room type accommodations in a standard 85-foot car for more passengers than could be accommodated in the previous standard 12 section drawing-room sleeping car. The Budgette car contains two rooms. One is entirely on the car aisle level; the other slightly raised, is entered at the aisle level. Adjacent rooms on the same level are so grouped that two can be thrown together en suite by day or night.

A new large plant located in Northeast Philadelphia was recently acquired under lease from the Reconstruction Finance Corp.

Adequate capacity also is available for housing subassembly lines and parts fabricating facilities adjourning the main assembly lines. The facilities will permit manufacture in a matter of months of as many streamlined trains as were built from the inception of the streamlined era in 1934 when Budd's first product in this category was placed in service.

Mr. Budd recently disclosed that orders on hand are sufficient to keep the new plant at capacity for several years.

Keeping Abreast of Industrial and Company Changes

WPB has estimated the output of passenger automobiles this year at 300,000. Prior to the recent labor troubles and their resulting stoppages of assembly lines the industry was optimistically hoping to turn out 500,000 cars. Next year, according to WPB figures, 3,600,000 cars will be turned out by the industry with the total rising to 1,100,000 in the final quarter.

A $10,000,000 plant will be erected in Mexico for the manufacture of electric appliances, refrigerators and radios under a license agreement with a subsidiary of Westinghouse Electric & Mfg. Co.

The plastics industry will inaugurate a program of informative labelling for many of the plastics products distributed through retail channels. The idea is to eliminate much of the present confusion and misuses on the part of consumers.

Announcement was recently made by General Motors of the development of a new 200-horsepower motor for installation in medium-size private planes. In the same connection talk has been heard that Bendix Aviation may develop a new private plane utilizing the GM power plant.

Baldwin Locomotive reports a rising tide of export orders on its books. South American railroads have ordered a total of 72 locomotives.

Pre-war production capacity of Decca Records will be doubled by the construction of two new plants. The company also plans to double the number of its dealers.

The chemical industry plans to spend $800,000,000 in a program of expansion, according to a survey made by the Department of Commerce. DuPont plans to spend $40,000,000: Air Reduction, 25,000,000; Dow Chemical, $20,000,000; and Monsanto, $48,000,000.

Loew's Inc., through a subsidiary, is planning to make 16mm prints of 35mm features for distribution in out-of-the-way foreign places. This marks a radical shift in the former policy, although many 16mm prints were distributed overseas for showing to the military and naval forces.

Ten of the leading manufacturers of machine tools have banded together in the American Machine Tool Export Associates and will make a strong bid for Latin-American markets formerly dominated by Great Britain and Germany.

Chrysler expects to be turning out 400 Plymouths daily by the end of this year. That is if present labor difficulties are not prolonged.

A new eight-story structure will be erected by Abraham & Straus on the site of the company's present store. Company plans to spend $4,000,000 for expansion.

City Stores has acquired 48 per cent of the outstanding common stock of Oppenheim, Collins & Co.

In August Eastern Air Lines carried 84,000 revenue passengers, a gain of 93 per cent over August 1944. Passenger revenue was up 62 per cent from the level of last year.

U. S. Government through FEA has contracted for half of the tin output of Patino Mines & Enterprises for the year ending June 30, 1946. Negotiations are being made for a similar contract next year.

Sherwin-Williams plans to spend $2,000,000 for the erection of a paint factory, a warehouse, and sales offices in Atlanta.

With the addition of a new plant, to be completed by mid-1946, at New Albany, Ind., Gunnison Homes, a subsidiary of U. S. Steel will be able to turn out 1,650 pre-fabricated houses a year.

Work will shortly start on a new $1,600,000 aspirin plant for Sterling Products. Company probably anticipates a lot of business men will have reconversion headaches.

With prospects favoring a good corn crop, much better than seemed likely several months ago, whisky distillers are hopeful that they will be alloted generous supplies of corn in November and December. This would enable them to build up drastically depleted stocks of bourbon whisky.

Manufacturers of vacuum cleaners have been slow to get into volume production because of continued scarcities of cotton textiles used in making bags and hose coverings. Third quarter output was estimated at 40,000 units by WPB, but is expected to rise to 150,000 units in the final three months.

No new tires will be available to Mr. & Mrs. Sunday Driver for "many months," reports both WPB and OPA. Nearly a million approved applications are on file waiting for local rationing boards to receive their quotas. Vital civilian services such as doctors, nurses, etc., have first preference.

Fluorescent lamps can now be installed in busses and street cars. Sylvania Electric Products has developed a new fluorescent lamp and auxiliary which may be installed in transit vehicles without the expensive equipment required to convert to alternating current.

Bridgeport Brass will triple its facilities for turning out tire stems and plumbing fixtures. This is part of the company's plant expansion program which will involve an outlay between $5,000,000 and $6,000,000.

United States Steel has announced that it will quote prices for stainless steel at both its Chicago and Cleveland mills, in addition to Pittsburgh. The addition of two new "basing points" may be of considerable significance.

This move on the part of Big Steel is certain to be followed by other producers and may be the forerunner of a wave of price cutting, similar to that which occurred in 1938. Capacity for stainless steel production has been greatly enlarged and there is bound to be spirited competitive bidding for business.

Carbide and Carbon Chemicals Corp., a subsidiary of Union Carbide & Carbon has promised to have an extensive line of Vinylite plastic products on the market in time for the Christmas trade. Included are raincoats, garment bags, women's and children's shoes, women's bags and millinery ornaments. The company had been planning to introduce most of these items when it was overtaken by the war.

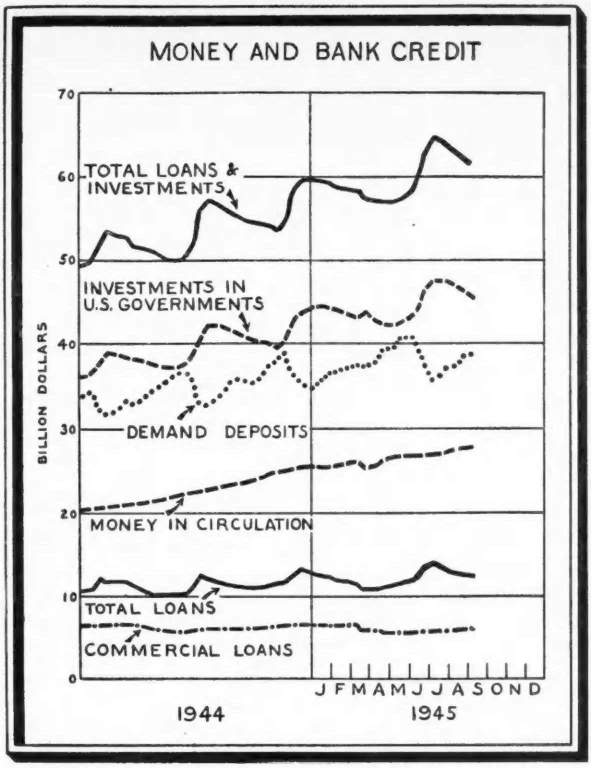
So large is the backlog of orders for glass containers and bottles that leading manufacturers are giving up any idea of new designs for at least a year. Owens-Illinois Glass has, however, developed a new "non-shatterable" bottle to be used in packaging more expensive liquids, where breakage might be costly.

Transcontinental & Western Air will soon inaugurate regular scheduled flights from coast to coast at 300 miles an hour. Consuming only about ten hours, the trip will be made in four-motored Lockheed Constellations, carrying 51 passengers. The company is also planning New York-to-Europe service in less than 14 hours.

Jack Frye, president of TWA, also hinted at lower fares, particularly on the European trip.

Curtiss-Wright has announced that it will close its Buffalo airplane plant and facilities will be transferred to Columbus, O., if the necessary arrangements can be made with the Defense Plants Corp., to use that plant.

The latest company to enter television is Paramount Pictures, with the announcement that it was preparing to embrace the new art as a network operator. In this undertaking the company is allied with the Allen B. DuMont Laboratories which operates television stations in New York and Washington.



SUMMARY

MONEY AND CREDIT — Revised budget estimates for 1945-6 fiscal year predict Federal expenditures of only $67.3 billion, against $100.4 billion in 1944-5; and net deficit of $31.3 billion, against $53.9 billion.

TRADE — Department store sales in four weeks ended Sept. 8 were 2% below last year, against 11% increase for year to date. Many prospective customers wait for post-war goods.

INDUSTRY — Business Activity down thus far only 4.4% since week preceding V-J day. Reconversion proceeding much faster than even the optimists expected; but may be slowed by labor strife.

COMMODITIES — Prices rally under Government support and expectations of continued creeping inflation. Record harvests predicted, with continued heavy domestic and export demand.

The Business Analyst

In the fortnight ended Sept. 8, this publication's index of **Business Activity** receded about three points, or a little less than 2%, to a level fractionally more than 2% below the like date in 1943. Thus far the recession has amounted to only 4.4% since the week preceding V-J day, and 8% since the week preceding V-E day, which latter marked its all-time high.

* *

Reconversion is proceeding much faster than even the optimists expected, and it looks now as though the decline will be stopped above the 1941 level and might not reach down even to 1942. Steel operations, in fact, have apparently seen the low already, unless the mills should be tied up later by strikes.

* *

The War Manpower Commission reports that mass layoffs in war industries have passed their peak; yet the social planners and labor leaders continue to proclaim that millions will soon be added to millions already unemployed. It is a rather sardonic commentary upon their lamentations that a number of industries—including steel, building, electrical equipment, toys, trade and various services—are even now being held back by **Labor Shortages,** particularly of skilled and

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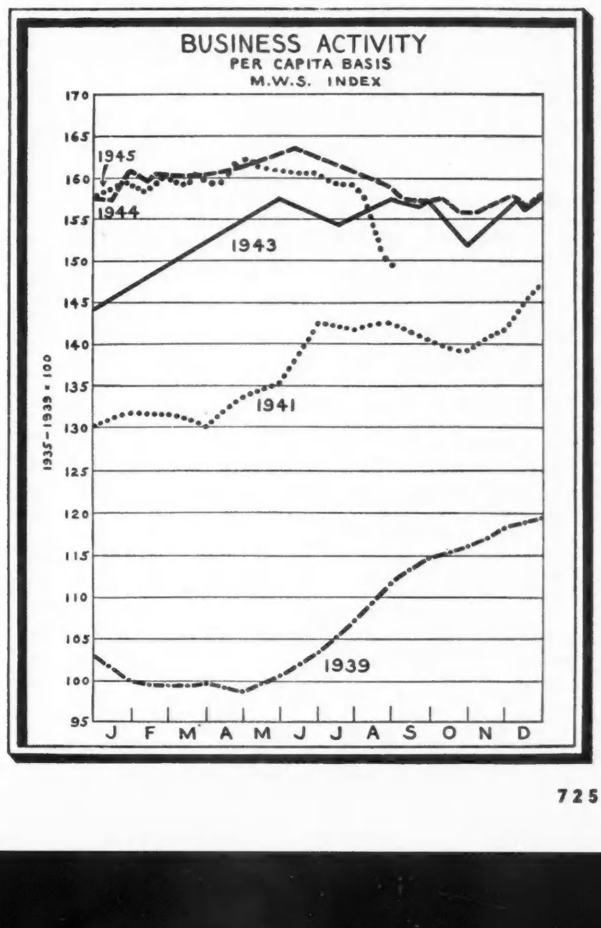


Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURE (tf) $b	Sept. 12	1.32	0.88	1.57	0.43
Cumulative from Mid-1940	Sept. 12	306.2	304.9	217.8	14.3
FEDERAL GROSS DEBT—$b	Sept. 12	262.7	262.7	209.7	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	Sept. 12	45.8	38.5	35.9	24.3
Currency in Circulation	Sept. 12	27.8	27.7	23.5	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Sept. 12	6.66	6.74	5.76	3.92
100 Other Cities—$b	Sept. 12	7.79	7.83	7.69	5.57
INCOME PAYMENTS—$b (cd)	July	13.52	14.40	12.93	8.11
Salaries & Wages (cd)	July	9.36	9.57	9.28	5.56
Interest & Dividends (cd)	July	0.94	1.85	0.91	0.55
Farm Marketing Income (ag)	July	1.87	1.53	1.60	1.21
Includ'g Govt. Payments (ag)	July	1.97	1.55	1.65	1.28
CIVILIAN EMPLOYMENT (cb)m	July	52.7	52.1	54.0	50.4
Agricultural Employment (cb)	July	9.1	9.1	9.7	7.7
Employees, Manufacturing (lb)	July	14.1	14.5	16.0	13.6
Employees, Government (lb)	July	5.9	6.0	5.8	4.5
UNEMPLOYMENT (cb) m	July	1.1	1.1	1.0	3.4
FACTORY EMPLOYMENT (lb4)	July	143	148	165	147
Durable Goods	July	185	194	226	175
Non-Durable Goods	July	111	113	118	123
FACTORY PAYROLLS (lb4)	June	299	303	335	198
FACTORY HOURS & WAGES (lb)					
Weekly Hours	June	44.6	44.1	45.9	40.3
Hourly Wage (cents)	June	103.9	104.3	101.7	78.1
Weekly Wage ($)	June	46.35	46.01	46.24	31.79
PRICES—Wholesale (lb2)	Sept. 8	105.0	105.2	103.6	92.2
Retail (cdlb)	July	142.4	142.1	138.2	116.1
COST OF LIVING (lb3)	July	129.4	129.0	126.1	110.2
Food	July	141.7	141.1	137.4	113.1
Clothing	July	145.7	145.4	138.3	113.8
Rent	July	108.3	108.3	108.2	107.8
RETAIL TRADE $b					
Retail Store Sales (cd)	July	5.71	6.04	5.51	4.72
Durable Goods	July	0.86	0.90	0.85	1.14
Non-Durable Goods	July	4.85	5.14	4.66	3.58
Dep't Store Sales (mrb)	July	0.44	0.53	0.38	0.40
Retail Sales Credit, End Mo. (rb2)	July	2.17	2.27	1.99	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	July	277	296	314	212
Durable Goods	July	403	422	487	265
Non-Durable Goods	July	196	216	202	178
Shipments (cd3)—Total	July	237	268	263	183
Durable Goods	July	304	355	373	220
Non-Durable Goods	July	190	207	187	155
BUSINESS INVENTORIES, End Mo.					
Total cd)—$b	July	26.6	26.6	27.4	26.7
Manufacturers'	July	16.3	16.2	17.2	15.2
Wholesalers'	July	3.7	3.8	4.0	4.6
Retailers'	July	6.6	6.6	6.2	7.2
Dept. Store Stocks (rb)—I	July	190	181	165	139

PRESENT POSITION AND OUTLOOK

(Continued from page 725)

semi-skilled help. Shortages of this character promise to become acute before long.

* * *

The fact is that hundreds of thousands of workers with special skills are still in the Army, on strike, or taking well deserved vacations, while few new ones have been trained during the war. Many laid off by war industries find it nearly as profitable to live at home on unemployment benefits as to accept low-pay civilian jobs.

* * *

It is scarcely realistic to class a man as unemployed when he refuses to work. In the light of present experience, it would seem that the various benevolent schemes to subsidize idleness which are about to come up for consideration by Congress should be labeled frankly as **"Measures to Promote Unemployment."**

* * *

As explained by Secretary Wallace in his recently published book, the slogan: **"Full Employment of 60,000,000"** does not seem so wide of the mark. He sets this goal for 1950, not for 1946, and includes the Armed forces. The population in 1950 may approximate 147,000,000. Deducting an estimated 2,500,000 in the Armed forces, would leave 144,500,000 as the civilian population. Our normal **Labor Force** is about 41.5% of the civilian population, which would be 60 million. In prosperous years, **Unemployment,** the so-called "labor float," amounts to about 6% of the labor force—in this instance, 3.6 million—leaving civilian employment of 56.4 million. Adding 2.5 million in the Armed forces, gives **Total Employment** of 58.9 million as Mr. Wallace defines it. The method of arriving at this figure is our own: not Secretary Wallace's.

* * *

The I. C. C. predicts that **Carloadings** in the first two months of 1946 will be 10.5% below the like months of 1945; though the decline in tons originated will be somewhat larger, since fewer tons will be loaded per car. On the other hand, the A. M. A. says that, barring serious labor trouble, **Truck Production** before the end of the current year will approximate the peace-time peak rate achieved in 1937; while WPB Chairman Krug estimates that **New Construction** next year will reach $6.5 billion—44% over 1945.

* * *

Unfilled contracts for **War Goods** now amount to only $10 billion, against $60 billion on Aug. 1. The backlog is expected to fall below $2 billion by the first quarter of 1946.

* * *

Department Store Sales in the week ended Sept. 8 were 1% below the like period last year in dollar value, compared with a decrease of 2% for four weeks and a cumulative increase of 11%

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	Sept. 8	149.9	150.4	157.7	141.8
(M. W. S.)—I—np	Sept. 8	161.9	162.4	168.2	146.5
INDUSTRIAL PROD. (rb)—I—np	July	212	220	230	174
Mining	July	144	144	139	133
Durable Goods, Mfr.	July	291	308	340	215
Non-Durable Goods, Mfr.	July	169	173	165	141
CARLOADINGS—t—Total	Sept. 8	731	860	825	833
Manufactures & Miscellaneous	Sept. 8	306	364	374	379
Mdse. L. C. L.	Sept. 8	93	105	104	156
Grain	Sept. 8	52	66	44	43
ELEC. POWER Output (K.w.H.)m	Sept. 8	3,909	4,137	4,228	3,267
SOFT COAL, Prod. (st) m	Sept. 8	9.9	12.3	11.0	10.8
Cumulative from Jan. 1	Sept. 8	403	393	438	446
Stocks, End Mo.	July	49.9	47.7	61.4	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Sept. 8	4.5	4.9	4.7	4.1
Gasoline Stocks	Sept. 8	85.2	84.2	78.1	87.8
Fuel Oil Stocks	Sept. 8	47.9	46.8	60.7	94.1
Heating Oil Stocks	Sept. 8	42.2	40.9	41.7	54.8
LUMBER, Prod. (bd. ft.) m	Sept. 8	407	429	551	632
Stocks, End. Mo. (bd. ft.) b	Aug.	3.3	3.1	3.6	12.6
STEEL INGOT PROD. (st.) m	Aug.	5.71	6.99	7.50	6.96
Cumulative from Jan. 1	Aug.	55.8	50.1	60.1	74.69
ENGINEERING CONSTRUCTION AWARDS (en) $m	Sept. 13	60.4	30.8	42.5	93.5
Cumulative from Jan. 1	Sept. 13	1,352	1,292	1,329	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Sept. 8	160.9	173	132	165
Hosiery Production (pairs)m	June	136	144	144	150
Footwear Production (pairs)m	June	43.8	43.8	41.0	34.8
Hide & Lea. Stks., End Mo. (hds.)m	June	12.0	11.9	10.6	14.0
Anthracite Coal Production (st)m	June	4.9	5.6	4.9	3.8
Machine Tools, New Orders—$m	July	15.5	23.1	31.9	80.0

PRESENT POSITION AND OUTLOOK

(Continued from page 726)

for the year to date. Part of this mild recession is attributable to factory layoffs; but merchants say that customers are more choosy now. Rather than buy out-of-date "Victory goods," they prefer to wait for new refrigerators, nylons and real leather handbags.

* * *

Labor Secretary Schwellenbach says that the Bureau of Labor's **Cost of Living Index** is an accurate statistical calculation of what it is designed to measure; but that some writers have applied it too broadly. So the index will be retained, but, to make its limited usefulness clear, will be renamed: "Consumers' Price Index for Moderate Income Families in Large Cities." To save space, the Business Analyst will continue to publish the index under its old name: "Cost of Living."

* * *

Taking account of Japan's surrender, the **Budget Bureau** has issued revised estimates for the 1945-6 fiscal year, predicting Total Expenditures of only $67.3 billion, against $100.4 billion for 1944-5; a Net Deficit of $31.3 billion, against $53.9 billion; with Public Net Debt at $272.9 on June 30 next, against $258.7 at the end of last June.

Ag—Agriculture Dep't. b—Billions cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. cdlb—Commerce Dep't. (1935-9—100), using Labor Bureau and other data. en—Engineering News-Record. I—Seasonally adjusted Index, 1935-9—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. lt—Long tons. m—Millions. mpt—At Mills, Publishers and in Transit. mfb—Magazine of Wall Street, using Federal Reserve Board data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge accounts. st—Short tons. t—Thousands. tf—Treasury and Reconstruction Finance Corp.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

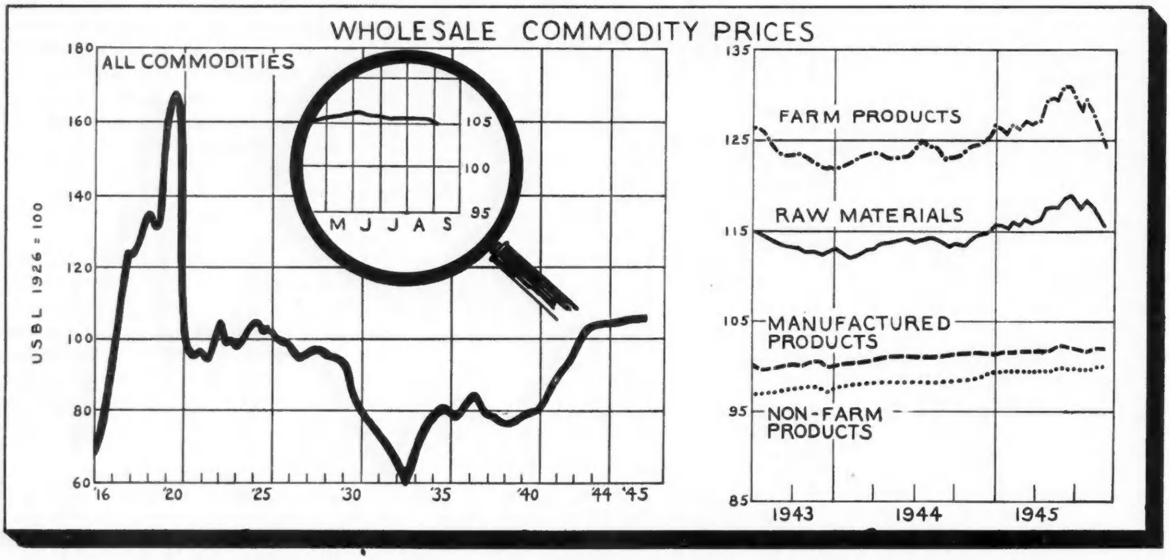
No. of Issues (1925 Close—100)	1945 Indexes High	Low	Sept. 8	Sept. 15
290 COMBINED AVERAGE	135.0	105.0	135.0Q	132.8
4 Agricultural Implements	197.4	160.5	192.5	186.7
10 Aircraft (1927 Cl.—100)	213.6	156.0	192.7	189.3
6 Air Lines (1934 Cl.—100)	877.5	559.6	820.6	792.0
5 Amusement	95.4	78.9	95.4P	93.3
13 Automobile Accessories	251.4	178.2	251.4Z	246.4
12 Automobiles	50.3	33.8	49.0	47.1
3 Baking (1926 Cl.—100)	16.6	14.3	16.5	16.4
3 Business Machines	269.1	221.3	265.3	258.6
2 Bus Lines (1926 Cl.—100)	160.8	123.5	140.4	143.4
4 Chemicals	217.9	189.2	217.9H	217.6
4 Communication	83.6	73.5	82.5	81.6
13 Construction	56.9	42.3	55.7	55.3
7 Containers	338.7	276.5	338.7H	338.2
8 Copper and Brass	85.1	74.8	82.7	85.1D
2 Dairy Products	59.3	47.6	59.3P	59.2
5 Department Stores	58.2	39.8	58.2R	57.3
5 Drugs and Toilet Articles	165.2	117.6	165.2R	162.6
2 Finance Companies	297.0	222.1	296.5	275.3
7 Food Brands	179.5	134.5	176.4	179.5Z
2 Food Stores	67.6	56.1	65.9	67.4
4 Furniture	100.6	81.6	100.6H	98.6
3 Gold Mining	1158.0	938.3	1052.8	1022.7

Nov. 14, 1936, Cl.—100)	High	Low	Sept. 8	Sept. 15
100 HIGH PRICED STOCKS	88.61	73.59	86.61H	88.19
100 LOW PRICED STOCKS	158.42	112.22	158.42Y	154.26
6 Investment Trusts	55.2	44.7	55.2H	54.1
3 Liquor (1927 Cl.—100)	568.2	391.0	548.2	568.2Z
8 Machinery	180.2	137.5	179.7	175.9
2 Mail Order	130.8	96.7	130.8Q	129.0
3 Meat Packing	95.1	68.6	94.2	95.0
11 Metals, non-Ferrous	181.1	149.0	179.5	178.3
3 Paper	25.8	18.9	25.8H	25.4
22 Petroleum	167.1	142.5	154.2	152.5
19 Public Utilities	95.7	55.4	95.7H	92.8
5 Radio (1927 Cl.—100)	34.0	27.5	34.0J	32.9
7 Railroad Equipment	92.4	68.9	92.4H	91.4
21 Railroads	37.5	22.8	31.5	30.1
2 Shipbuilding	115.6	89.9	96.8	96.2
3 Soft Drinks	506.1	394.8	506.1Z	491.8
12 Steel and Iron	103.4	82.8	103.4F	101.2
3 Sugar	68.0	55.2	65.6	65.7
2 Sulphur	212.4	173.5	204.7	208.9
3 Textiles	102.4	58.5	94.4	96.9
3 Tires and Rubber	41.5	33.9	41.5R	39.8
5 Tobacco	84.2	67.5	83.3	83.1
2 Variety Stores	287.4	255.6	282.3	277.2
21 Unclassified (1944 Cl.—100)	126.1	100.0	123.3	124.1

New HIGH since: D—1941; F—1939; H—1937; J—1936; P—1931; Q—1930; R—1929. Y—New HIGH since Nov. 4, 1936. Z—New all-time HIGH.

Trend of Commodities

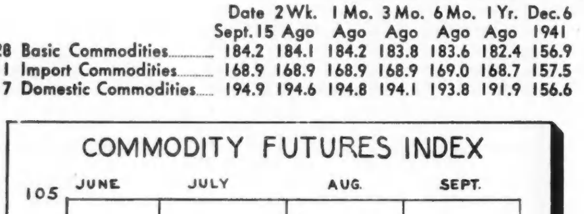
Commodity indexes, both spot and futures, rallied moderately during the past fortnight — partly under Government support and partly in response to Administration backing of demands for higher basic wage rates. It is felt that sooner or later higher wages must lead to higher prices for goods, which would mean higher parity prices for farm products. The Agriculture Department's Sept. 1 report on crop conditions indicates that eight U. S. grain harvests this year will reach 158 million tons, 2 million above last year. The grain outlook in Europe this year, however, is the poorest since pre-war days, with wheat prospects particularly unfavorable. In the Argentine, only 75 million bushels of wheat from this year's harvests is expected to be available for export, so that Europe will have to import large quantities from North America. Our 1945 cotton crop is expected to be the fourth smallest in 45 years. Stocks in this country at the end of August are estimated at only 19.8 million bales, against 21.6 million a year earlier. If distribution this year reaches 12.5 million bales, the carryover will be only 8.6 million compared with 11.16 million last year. With plenty of ships available, exports of this year's cotton to Europe may reach 4 million bales. Dairy and poultry feed, contrary to earlier fears, is now at a 25-year high and pastures are excellent. Cattle, somewhat heavier than a year ago, are now coming to market in fast increasing numbers and there is talk of making beef ration free by the year-end unless European relief shipments increase substantially. Cheese rationing is already ended.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August 1939, equals 100

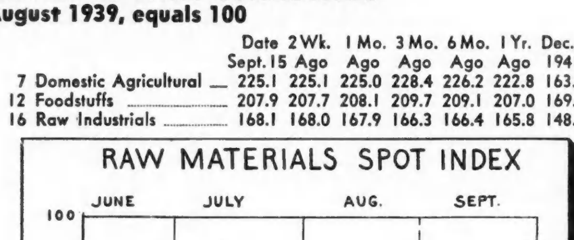
	Date Sept. 15	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	184.2	184.1	184.2	183.8	183.6	182.4	156.9
11 Import Commodities	168.9	168.9	168.9	168.9	169.0	168.7	157.5
17 Domestic Commodities	194.9	194.6	194.8	194.1	193.8	191.9	156.6

	Date Sept. 15	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
7 Domestic Agricultural	225.1	225.1	225.0	228.4	226.2	222.8	163.9
12 Foodstuffs	207.9	207.7	208.1	209.7	209.1	207.0	169.2
16 Raw Industrials	168.1	168.0	167.9	166.3	166.4	165.8	148.2



Average 1924-36 equals 100

	1945	1944	1943	1942	1941	1939	1938	1937
High	101.70	98.13	96.55	88.88	84.60	64.67	54.95	82.44
Low	93.90	92.44	88.45	83.61	55.45	46.50	45.03	52.03



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1945	1944	1943	1942	1941	1939	1938	1937
High	98.2	97.6	96.0	89.1	86.7	78.3	65.4	91.5
Low	96.7	94.9	89.3	86.1	74.3	61.4	57.5	64.7

Realistic Survey of the Radio Industry

(*Continued from page* 714)

It plans further to capitalize on its wartime experience and will manufacture various communications and control devices for marine, railway and airway use. It plans to be active in television. What earnings may be expected from these various sources are problematical and until a more accurate appraisal can be made of the company's peacetime status, the shares must be rated as highly speculative.

STROMBERG-CARLSON CO., during the war, was rated as one of the nation's ten top manufacturers of radar equipment. The company is now prepared to resume large scale production of radio receiving sets, telephones and switchboard equipment. In the radio field the company has long been identified with quality sets, commanding higher retail prices. The company also operates two broadcasting stations in Rochester. Last year earnings applicable to the common stock were equal to $2.97 a share which compared with average annual earnings of 34 cents a share for the four years prior to the war. A year-end dividend of 75 cents was paid last year. With the likelihood that 1946 earnings will show a marked decline from the record-breaking war level, recent price of around 22 would seem to place a rather generous premium on the company's foreseeable prospects.

This year SYLVANIA ELECTRIC PRODUCTS may show earnings approaching $3 a share which would compare with $2.04 earned last year. Current earnings will in all probability represents the peak of the company's earning power for some time to come. Sylvania is the second largest manufacturer of radio tubes. Other products include incandescent and fluorescent lamps. The acquisition of Colonial Radio last year gives the company not only an assured outlet for its tube production but a sizable stake in the radio manufacturing field. The bulk of Colonial's output is marketed through a large mail order organization and through automobile service stations. The company's established trade position and diversified output augur favorably for the nearterm and lend the shares a measure of attraction.

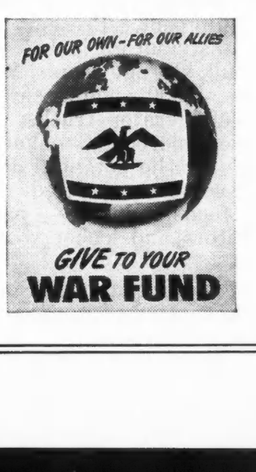
Firmly established as the third largest manufacturer of radio equipment, ZENITH RADIO, should be able to fully hold its own in the looming competitive struggle. Last July the company announced that its post-war line of radio receivers had been engineered and only awaited Government permission to start production. The company's dealer organization, numbering in excess of 15,200, had placed orders totaling $57,000,000 for post-war delivery. The company also has a low cost hearing aid which should contribute to earnings over the months ahead. Earnings for the fiscal year ended last April 30, were equal to $3.37 a share and a dividend of $1 was paid. At recent levels the shares appear reasonably priced, even if ample allowance is made for lower earnings in the current fiscal period. The $1 dividend appears likely to be continued.

Corporate Earnings Trends In Our Transitional Economy

(*Continued from page* 696)

stocks to their traditional role as inflation hedges insofar as there would no longer be any tax-imposed ceiling on postwar corporate incomes that would keep common stocks from participating in an inflationary price rise.

Some such reasoning, plus the favorable overall expectancy, undoubtedly explains in large part the mentality behind the post-VJ-Day stock market advance. Much of the steam behind the present market comes from the expectation of prompt tax relief, the optimistic view of reconversion progress, the belief — on growing evidence — that transition from war to peace will not prove too tough, and last but not least, the inflationary signals which cannot be ignored.



Postwar Potentials of Frozen Foods Industry

(*Continued from page* 716)

such as stews, chowders, etc. These should appeal strongly to the housewife because of the time and effort saved in their preparation. Even now, in some of the larger urban centers, it is possible to buy quick frozen foods for a complete meal, including appetizers, soup, meat, vegetables, pie and ice cream.

The industry is, in fact, rife with new ideas for processing and merchandising. One organization is planning to set up a chain of frozen food "automats" where the products will be dispensed from compartments operated by inserting a coin in the slot. Plans are afoot for the preparation of quick frozen meals for later service on planes. Doubtless some of the ideas now being projected will later be found impractical; others will contribute materially to the industry's growth and progress. Together they provide irrefutable evidence of alertness and dynamic activity.

Quick Frozen Meat

There is one division of the frozen foods industry which has thus far not matched the growth experienced in other branches. At the present time quick frozen meat products are limited to such items as steaks, chops and chopped beef, and for every $100 worth of meat sold only about one cent's worth is in frozen form. The idea of quick frozen meat was tried by the packing industry fifteen years ago. A prominent packer lost a million dollars on the experiment, and subsequently abandoned the idea. Packers however, are again hopeful that the idea of quick frozen meats may be more successful. Hopes are based on the plans of refrigerator manufacturers to include a cold storage compartment in new refrigerators. Frozen meat must be kept at zero temperature, whereas the average automatic refrigerator in use today maintains a temperature of only 45 degrees. If a fairly large segment of the public will purchase these new refrigerators and storage cabinets, or show a disposition to support public storage lockers, packers would probably be persuaded again to make their products available in quick frozen form.

Developed on a large scale, the merchandising of meat by the quick frozen method might conceivably revolutionize the meat packing industry. Not only would consumers be able to purchase prime meats the year around, rather than in the short seasons when they are at their best, but quality would be considerably improved by control of aging and tenderizing processes at the packing plant. The seasonal headaches which now plague the packers would be appreciably mitigated. Costs might be increased to some extent but in time they might be absorbed by proceeds from the sale of fat and bones, lower freight costs and more efficient handling. Unions are opposed to freezing of meat on the grounds that butchers would be thrown out of work. But if the public wants frozen meat, this opposition will be largely dissipated. It is significant that during the war the packing industry gained much valuable experience in the handling of frozen meat for the Army.

Estimated Needs

Viewing the prospects for the handmaiden of the frozen foods industry—the refrigeration industry—it is significant, as already pointed out, that only about 10 per cent of the 400,000 retail food stores in the United States are now equipped to handle frozen foods. According to estimates there are about 165,000 home storage cabinets now in use, and it has been forecast by responsible interests identified with the industry that between 900,000 and 1,500,000 of these cabinets will be sold in the next two years. Earlier this year "Quick Frozen Foods," a trade publication, conducted a survey of frozen foods packers and reported that 40 per cent needed filling machinery, 60 per cent insulation, 42 per cent various types of processing equipment, and 50 per cent quick freezing equipment. Present needs among distributors include about 1,600 bulk storage rooms, 125,000 cabinets, 2,000 compressors, and 4,200 refrigerator trucks. These estimates, moreover, make no allowance for the potential demand by newcomers attracted to the frozen foods industry — packers, distributors and locker room operators.

At this point it might be well to sound a word of caution to the investor attracted by the strong growth factor in the frozen foods industry, or the favorable outlook for the refrigerator industry over the next several years. Lured by the promise of large profits, many new companies and enterprises will probably spring up virtually over night in the frozen foods business. This usually occurs in an industry when it attains boom proportions. To a lesser extent, this is also likely to apply in the case of the refrigeration industry. Some of the marginal manufacturers may show sizable profits for a brief period, which will disappear once the cream is off and the bulk of deferred demand has been met. The best investment mediums in both fields are the shares of those established companies with a background of satisfactory earnings and whose activities are diversified to embrace other fields as well. It might also be well for the investor to bear in mind that the present favorable outlook for these two industries may not bear tangible fruit until well along in 1946. Marked expansion in the frozen foods field will not take place until after acreage for the 1946 packs is contracted for by established processing companies. Moreover, these companies will continue to furnish large supplies to military and naval forces for a time yet. As for new refrigeration equipment it may require from six months to a year before it becomes available in any considerable quantity.

Outstanding Companies

Companies prominently identified with the frozen foods industry and others likely to play a leading role in its future growth are briefly discussed below:

Through its Birdseye-Snider division, GENERAL FOODS is credited with close to 40 per cent of the country's frozen food sales. The company has behind it a long record of consistent growth and may be counted on to share prominently in future expansion of frozen foods industry.

STOKELY-VAN CAMP distributes the Honor Brand frozen foods, and these account for about 8 per cent of total sales. Volume has grown steadily and further expansion appears certain.

Thus far STANDARD BRANDS has remained aloof from the frozen foods field, but recently it has been officially hinted that the company may enter the retail field. Already doing business with some 100,000 retailers, the com-

pany might become a major factor in a comparatively short time.

Rated the largest food packer in the country, LIBBY, McNEIL & LIBBY has confined its activity in frozen foods to research and experimentation. It would not be surprising if it takes a more aggressive position in the not distant future. The company's established brand names would insure a strong competitive position.

Although the above companies are by no means the only ones with a stake in frozen foods, their present and probable future status can be most readily evaluated. Other possible entries into the field include some of the leading grocery chains, processors of dairy products and meat packers.

The list of the companies with an important interest in the refrigeration industry is somewhat larger and includes some of the prominent manufacturing enterprises in the country.

GENERAL MOTORS, through its Frigidaire Division, GENERAL ELECTRIC and WESTINGHOUSE ELECTRIC are among the leading manufacturers of household refrigeration and, by the same token, may be expected to be ready with a full line of household freezing cabinets and commercial refrigerators.

The Kenvinator division of NASH-KELVINATOR was credited with 15 per cent of the electric refrigerator market in 1941. Company is competitively aggressive and knows how to turn sales into profits.

The Norge division of BORG-WARNER is equipped to manufacture both industrial and household refrigeration equipment of all kinds. The company plans to expand Norge plant facilities and no undue reconversion difficulties are likely to be experienced.

A line of household freezers and refrigerators by PHILCO CORP., is already in production, practically all of the company's war contracts having been cancelled. Facilities for the manufacture of refrigerators have been expanded to produce twice as many units as in 1941. The company also produces and sells the largest number of radio receiving sets for home use.

CARRIER CORP. is a prominent manufacturer of equipment used for air conditioning, refrigeration and industrial heating. Valuable patents are held. The company's Blast Freezer is reputed to be one of the fastest and most efficient systems for quick freezing of foods. With demand for both freezing and air conditioning equipment promising marked post-war expansion, the company has a double-barreled opportunity.

YORK CORP. specializes in the manufacture of ice machinery, air conditioning, and refrigeration equipment. No household refrigerators are produced. Pre-war record was mediocre but peace time opportunities are good. The company is intensely interested in manufacture of quick freezing equipment.

Deepfreeze division of MOTOR PRODUCTS CORP. has been one of the pioneers in the development of freezing cabinets for home use. Company plans to expand facilities for the manufacture of these cabinets and officials of the company have been credited with anticipating that a market for 5,000,000 of these units will develop in the post-war years.

How Companies Fare Under War Contract Cancellation

(*Continued from page* 718)

to measure potentials by reported civilian orders already booked would mean little. Fact is that the sudden ending of the war and the attendant huge military cancellations merely hasten the return of most concerns to conditions where on a much smaller volume wider profit margins and tax relief may actually enhance net profits, and although labor difficulties will have to be smoothed out, no consternation marks the end of military production. Rather the abruptness of the termination impact is generally regarded as fortunate in that it permits accelerated return of a normal and prosperous era. The steel industry, for example, has few reconversion problems and from Pittsburgh comes word that since the Japanese surrender, in spite of enormous military cancellations, for every four tons of steel now unwanted by the Government, five tons have been ordered for civilian use. True, some of the latter represent duplications, but net orders tend to offset the rapidly shrinking military demand.

Among the makers of farm equipment, International Harvester Co., the leader, reports that all orders for military production

have been cancelled, and that although 47% of sales during the first nine months of 1944 were to the Armed Services, demand from dealers for normal products is so strong that they will strain capacity output.

Among manufacturers of railway equipment, reported backlogs of a civilian character running to substantial sums appear to be the general rule, the respective volume for American Locomotive being $118 million after $26 million cancellations; nearly $94 million for American Car and Foundry although orders for Lend-Lease have been largely cancelled; and Pullman-Standard Car Co. has a backlog of over $70 million still on the books.

Contract terminations of Zenith Radio exceeding $46.4 million at last report caused little worry as zealous dealers had already poured in orders for some $60 million worth of regular products. Foster-Wheeler, important in the pump field, reports a civilian backlog of $29 million which pretty nearly offsets contract terminations by the Government. Bendix Home Appliances, of late heavily in war work, gives no definite figures as yet, but announces that over one million householders have stated intentions to purchase their washing machines. In a similar indefinite but constructive category is Minneapolis-Honeywell, enjoying a backlog which will exceed 30% of prewar volume within a few weeks time.

As shown on the accompanying table, the contract cancellations viewed against last year's sales have assumed very considerable proportions. In the majority of cases, remaining war contracts are but a small fraction of both, former order backlogs and 1944 volume. Normally such a contraction would be little short of catastrophic. In the present instance, it is merely a temporary and by no means unexpected phase that—excepting purely war industries such as aircraft, shipbuilding and ammunition—will be quickly and effectively overcome by return to normal activities.

Postwar Markets Over Past Century

(*Continued from page* 693)

output has been for war as against only some 25% in 1918, price control has been far more effective than during the First World War. Indeed, most of it occurred between 1939 and December, 1941, when we were not at war. Since then and to the end of the war, control of everything except farm prices has been phenomenally successful. All of these differences have stock market implications, as we shall discuss more fully hereafter.

Will History Repeat?

Since the question is whether history may repeat, and since we have already noted that no two business cycles are alike, there is no point in discussing individually the numerous economic ups and downs depicted on the accompanying long term chart. However, a few words on the earlier war and postwar history of the stock market are in order.

First, the further back you go, the less useful this history becomes in any attempt to apply the lessons of past experience to the problems of today. Obviously, our present economy is more comparable with that of the First World War and its postwar aftermath than with that of Civil War times, or of the War of 1812 or the Independence War of 1776. And when you go back very far you get a radical difference in the composition of the stock market.

For instance, the earliest "stock market" that it is possible to chart was really a market for a very few canal, bank and insurance stocks. There were no railroads; and manufacturing enterprises were both small and family-owned. In the accompanying chart, the "stock prices" of 1857 through 1870, covering the Civil War and a substantial postwar phase, were those of 26 railroad stocks. Hence, the market record of that period may be an accurate reflection of what investors and speculators thought was happening to, or in store for, the railroads, but it surely can be considered of less than complete accuracy as an indicator, or barometer, of change in the national economy.

Instead of noting, then, that "the market" went up during and until fairly near the end of the Civil War and declined for nearly two years thereafter, let's say railroad stocks had that pattern. Beginning with 1871, the graph is more broadly reliable, being based on the All Stocks index prepared by the Cowles Commission for Economic Research, while from 1918 on it is, with adjustments, the Standard & Poor's index of 419 stocks. In the complete form, as presented with this article, the chart is the work of Mr. Leonard Ayres, published by courtesy of the Cleveland Trust Company.

Though the market normally moves in gear with the economic cycle, with a time lead, it does not always do so. When it is in gear with the business trend, the degree of rise or decline often is "out of line" with the actual change in business conditions and corporate earnings. This is not only because stock prices are affected by money rates and money supply—as well as by earnings and dividends, but, above all, because the greatest and most unpredictable shifts of all are in that non-statistical thing called "sentiment." This can be influenced by what monied people think of a President's ideological "soundness," or the lack thereof, or even by his manners and speech! One of the writer's analyst friends has put it in the apt verse: "Stocks are neither high nor low; 'tis only thinking makes them so."

Postwar Boom of 1870

For example, there was a postwar business boom running through 1870, 1871 and into the forepart of 1872, following five years in which business held close to calculated normal without depression or boom. Over both of these periods the stock market did little more than drift sidewise. The trend was down from the end of 1871 to mid-1876, in line with the secondary postwar depression. It then turned up about 18 months ahead of business on monetary considerations, anticipating the gold-resumption prosperity of the early 1880's.

In the secondary postwar boom of the 1920's — the "New Era" prosperity—business did not rise any further above normal, allowing for long term national growth, than it had done in various previous expansion periods. Yet the stock market, after 1926, "went crazy." An easy money policy, release of investment funds by reduction of the Federal debt and the politics of "normalcy" had much to do with it, but can't be a full explanation. A completely rational explanation

is no more possible than it is of the historical Tulip Craze or of the Mississippi Bubble.

"Psychology," rather than the trend of industrial production or of earnings and dividends, has been the dominant influence in the market over the past five or six years. Average stock prices had a violent decline between the spring of 1940 and that of 1942, anticipating war and war taxes, though business volume and earnings were rising spectacularly. Much of the subsequent market rise occurred after production had passed its peak and aggregate earnings were stabilized. There has recently been a sharp further rise, though production and employment are declining steeply.

Motivation

It is increasingly hard to imagine when this market might get back in gear with the business cycle, on which usually the larger fluctuations in total corporate earnings depend. The composite average is within fair striking distance of the 1937 bull market high, the motivation being not current business and earnings but (1) huge money supply and "inflationary sentiment"; (2) promise of repeal of the excess profits tax for 1946; and (3) hopes of a boom-time level of civilian business activity (said hopes buoyed by optimistic War Production Board forecasts) as early as next June.

In the writer's view, we do not have indications pointing to a typical postwar pattern in either economic activity or the stock market. We are not having a few initial months of hesitation in either, for the market has risen since the war, whereas the post-Armistice trend in 1918 was moderately, but quite appreciably, downward; while aggregate industrial activity is declining much more sharply than it did in the initial weeks of peace in November-December, 1918.

It is to be doubted that we are going to have an early postwar commodity speculation and inventory inflation at all comparable to that of 1919 and early 1920, the collapse of which was the key phenomenon in the 1920-1921 "primary postwar depression." This is partly because of continuing Government restraints, partly because business men have not forgotten the lessons of 1919-1921. Therefore, unless caused by quite unpredictable troubles, it appears that we probably will escape the "primary postwar depression" altogether, with the reconversion low in production to be seen either within this year or very early in 1946. As one striking indication of the speed of the transition—and a thing no one would have thought possible six weeks ago—the postwar slump in the steel industry appears to have lasted less than a month, for the operating rate already is trending up again, many plants are hampered by short labor supplies and demand for consumer-goods steels exceeds capacity for making these types.

In short, the present evidence suggests that 1946 probably will be the beginning of the protracted postwar prosperity, based on deferred consumer needs and large export demands, which many economists have long been forecasting and which the stock market has long been discounting. At least, this time one should allow for the possibility of the whole typical postwar sequence being telescoped in time pattern, so to speak. Moreover, the country's productive capacity is now so great that backlog consumer and export needs may be filled in fewer years than many of the more optimistic forecasts allow for.

During much of the postwar prosperity of the 1920's the investing-speculating public had remarkably few inhibitions. It wasn't thinking of politics in terms of Left or Right, nor was it nearly so conscious of profit-margin questions as it is in these days of ascendant economic-political power of organized labor. Sure, there could be reactions—but private enterprise was on its way, with nearly unlimited vistas. It was the New Era.

How likely is it that such a mood will be recaptured? In the writer's opinion, the possibility of the market reaching an extreme well above the 1937 average high depends more on inflation potentials than basic capitalist confidence. The potentials are there, for a balanced Federal budget is not in sight and debt financing via bank credit will continue to inflate the money supply for an unforeseeable time. Other things being equal, a further long term depreciation in the purchasing value of the dollar would

seem certain. But other things may not be equal. While there will be pressure for higher prices in money supply and labor demands, there may in due time be pressure for lower prices as a result of enlarged industrial capacity, advanced operating techniques, competition, over-production of consumer goods. How this balance will work out is impossible to predict now. However, no one should be greatly surprised if backlog consumer goods, with the exception of automobiles and building, are in, or within sight of, a buyers' market by the end of next year.

In 1916-1919 the stock market rose greatly, motivated mainly by then current conditions or nearby prospects—not discounting a lengthy postwar business boom. In the main, though with some exceptions, "war babies" were the most spectacular performers. War and peace stocks went down together in the bear market of 1920-1921. By the end of 1923, peace stocks were far above their wartime highs, war stocks nearly 40% below theirs.

Contrast this with the present situation. We are now in the fourth year of a great bull market. Aside from money supply, it has been rationalized not on the basis of wartime considerations, but on postwar business, tax relief and higher earnings. In short, it could be said that the postwar boom in the stock market was running during the last three years or so of the war, paradoxical as that might seem. That thought is borne out by selectivity indications, for peace stocks have led this bull market throughout and war stocks, relatively, have lagged.

After the excess profits tax is repealed, there will be nothing else in the tax vista for the market to "go for" for a long time. This may be the situation in a couple of months. After the consumer goods industries have reached their recovery plateau, even though it be held for several years, there will not be any prospect of continuing rise in volume and earnings. That might substantially be the fact within the second half of next year—and just as the market has been discounting postwar prosperity many months in advance, it may begin to give heed to these less bullish considerations some months in advance of their tangible development.

Finally, if the market begins to fret about what will happen in business—and in the institutions of government—after the catching-up boom has run its course, and to do it a couple of years before the boom is over, that would be no more paradoxical, when you stop to think about it, than the spectacle of a great "postwar bull market" during the war.

To sum up, past experience and existing economic-financial fundamentals point to an extended period of high postwar business activity. It appears likely to develop more quickly than after past wars and without an intervening tailspin at all comparable to that of 1920-1921, though the immediate reconversion phase will involve a few months of sharply lower industrial production but only relatively moderate shrinkage in over-all business activity. There is some question about operating margins. Both volume and earnings might reach a plateau fairly early in the postwar boom period, in that respect differing from experience after the last war. The stock market, led by peace stocks, has had a goodly part of its "postwar rise" during the war. Inflation pressures may work one way—considerations of huge production, growing competition and Government policy might work the other way. Thus, past postwar experience seems a less reliable guide on the market than on business activity.

Investment Audit of Technicolor

(*Continued from page* 711)

made ample provision for funds with which to meet its objectives, finance its operating requirements and assure liberal treatment of stockholders. That full use of the increased facilities will be made seems likely, as in spite of its rapidly expanding volume in 1944, only 7% of the 426 films produced last year by the movie industry used color, and only about one-third of the high-cost pictures could or would fall in with the color parade. Time may come, of course, when only news reels stick to black and white, and then for the sole reason that speed in developing will be the determinant factor. So rapid may be the rush from now on for color that Technicolor, Inc. frankly expresses a hope that competition may develop to hasten the process and ease the strain upon its own efforts to meet demand.

A strong ally of Technicolor in its march to fame has been Eastman Kodak Co., which supplies the company with film. So close are the working arrangements between the two concerns that they have a cross-licensing agreement covering the use of various patents and another contract assuring an unusual degree of cooperation in the fields of research and development. A more potentially valuable technical alliance than this would be hard to imagine, and in providing a dependable source for raw film the arrangement provides particular benefits. Now that wartime film quotas hae been lifted, the movie industry has been stimulated to expand the production of important pictures employing color, and confidence in ability to secure ample supplies of essential materials is the basis of Technicolor's own expansion program.

War Improvements

Research during war has evolved many improvements in color photography, perhaps the most important of which is Technicolor's new monopack film which can be used in any studio equipped with the usual cameras for black-and-white. The hard struggle for supremacy by color has been prolonged in the past by costs three times those of the ordinary black-and-white process, the need for using expensive cameras manufactured by Technicolor, as well as its expert cameramen, the total burden being heavy. To date, only four pictures have been produced with the monopack, but indications are strong that its adoption will be far-reaching and tend to hasten the general use of color, now that cost factors are becoming less important. Other similar improvements are "in the works" and many more are likely to be developed as Technicolor plans aggressive research expansion both at home and in foreign countries. If these scientific efforts warrant further price reductions, sales potentials will brighten correspondingly, although experience has taught movie producers that high costs of color films are largely offset by increased box office receipts and lengthened runs.

Technicolor's 1944 balance sheet provides an interesting study, due to the unique character of the business. The capital structure is extremely simple, consisting of 1.5 million authorized no par shares of which 904,538 ½ shares are outstanding. While no senior securities of any kind existed as of December 31, 1944, $2.5 million serial bank loans, previously mentioned, will be issued in due course to finance an increase in facilities. Terms of this borrowing are not available but in view of the easy money market, annual service charges should not be unduly burdensome, without allowing for the added earnings potentials provided. Assuming an interest rate of 3%, 1944 net earnings of $859,000 would cover maximum interest charges of $75,000 about eleven times over. Provided no decline in earnings sets in during future years, to retire the principal over, say, a ten year period would be fairly simple.

Assets

Working capital of $4.4 million at the end of 1944 compares with a meagre $200,000 in 1932, the gain representing an uninterrupted build-up in every year since 1936. Of $6.68 million current assets, $3.5 million is represented by cash and $1.7 million by Government obligations, while accounts receivable of $832,279 equal only 7.6% of gross sales amounting to $11.1 million, an exceptionally low percentage compared with ordinary industrials. Inventories are carried at only $596,000, a significantly low figure relative to volume. Accounting for this unusually strong current asset position is the fact that sales of services as well as goods swell volume, thus minimizing the danger of inventory losses inherent in most resources are substantially increased by deposits required of enterprises. Furthermore, cash customers when orders are accepted, advance payments of this sort amounting to $499,342 or almost equal to total inventory.

Current liabilities of $2.27 million include $1.27 million due for taxes and a moderate $501,000 of accounts payable, plus the customers deposits mentioned above. Bank lines of credit, therefore, are wide open and current ratio stands at 3 to 1. True, this ratio in some past years has been as high as 6.9 and with the exception of 1944 has never fallen below 4.3 to 1 since 1936, a consistently favorable record, but working capital requirements of the company are ample and its current liabilities shrink with surprising speed in dull years; even in the dismal year of 1932, when working capital shrank to around $200,000, a current ratio of 2.4-1 was achieved, highlighting the extreme elasticity of operations.

Although Technicolor made prints on a wide range of subjects for many Governmental departments during the war, its record volume of $11.1 million in 1944 is unlikely to shrink under the impact of peace, for normal business should strain capacity, as has been pointed out, and no transitional lapse should occur now that adequate supplies of film are available. For the past seven years, net earnings have hovered consistently around the $1 million mark, averaging about $1.10 per share, except in 1942 when both volume and net suffered considerably under the early shock of war as film supplies became abruptly scant.

Between rising costs, taxes and voluntary reductions in price, net earnings while fairly stable have by no means been commensurate with consistent volume gains, not only during the war but for the past nine years. During this period the trend of profit margins to narrow has been significant, the percentage of operating profits to sales declining from a high of 29.4% in 1936 to 15% in 1944. Indubitably, the decline is attributable partly to rising wage costs, as the company is highly unionized and employee relations have been maintained on an exceptionally harmonious basis, and partly to company policies to gain volume by periodic reductions in price. But sales expenses are unusually low, amounting to less than 1% of sales and overhead absorbs only 5% of gross revenues. All in all, compared with other enterprises, current profit margins are fairly satisfactory and as volume expands in postwar, may show considerable improvement.

Net earnings of Technicolor have not been as drastically restricted by excess profits taxes as has been the case with many other concerns, although coming relief from EPT might increase net by about $330,000, or about

36 cents per share, if the tax rates were reduced to a straight 40%. As last year's reported net earnings were 95 cents per share, such a gain would produce a net of $1.31. Dividends from 1937 through 1941 ranged from 75 cents to $1 per share, dipping to 25 cents in 1942 and maintained at 50 cents in 1943 and 1944. But during the current year, 25 cents quarterly has been paid thus far and this rate is likely to be continued, due to well sustained earnings, a strong treasury position and the promising outlook.

At recent price of 23, Technicolor shares have generously discounted near-term growth potentials, but if the $1 dividend becomes well assured, as now appears probable, the yield of 4.2% is attractive and in the longer range might well increase, thus enhancing possibilities of further appreciation. The low book value of $7.50 per share has little significance in the case of this concern, as net earnings are the predominant factor, and these in turn are derived in substantial measure from services. Compared with a low price of 6½ in 1940, the rise to a high of 25¼ in 1945 has been nearly 300% and considerable volatility has marked the record of these shares which are traded on the New York Curb Exchange. Though adequately priced in relation to current earnings, they are not without longer range speculative merit, considering the company's assured future and growth potentials.

Analysis of C. & O. Merger Plan

(*Continued from page* 709)

$3.50 a share on the common stock. The new preferred would have equal voting power with the common.

In creating the preferred equity, Chesapeake directors realized the need for substantial compensation for the large accumulations on Nickel Plate and Pere Marquette preferreds. That there will be opposition to the merger proposal from holders of these senior stocks is certain, but the fact remains that not only Nickel Plate preferred, but both classes of Pere Marquette preferred shares are selling at good discounts from indicated exchange values, allowing a price of 100 to 105 for the new C. & O. preferred and a price of 50 to 55 for the common.

These stockholders must bear in mind the fact that liquidation of the existing arrears ($84 on Nickel Plate preferred, $36.25 on Pere Marquette prior and $70 on Pere Marquette preferred), is not now feasible, or practicable, except along the lines indicated by the unification, even though recent years have provided large earning-power. They must realize, too, that as C. & O. common improves in market valuation, as appears highly probable as the merger progresses, exchange values would be automatically increased.

Unlike the preferreds, the common stocks of the Nickel Plate, Pere Marquette and Wheeling & Lake Erie roads, are rather fully priced at levels recently prevailing. But in these cases, also, any market strength in C. & O. common stock would be automatically transmitted to such equities. For junior shareholders, the consolidation proposal is eminently fair since it substitutes a sound, dividend-paying issue for stocks that are hopelessly removed from any cash return.

There are, of course, other and very interesting aspects to the Chesapeake & Ohio merger situation. It no longer is any secret in well-informed railroad and financial circles that the Robert R. Young interests, who have accomplished so much for the Alleghany Corporation which would own 7.3% of the outstanding C. & O. stock, after the consolidation, already are drawing their blue-print for an even more important and far-reaching unification of railroads.

Possible New York Terminal

If the present merger is consummated, with the necessary approval of the Interstate Commerce Commission, the greater C. & O. system, as now projected, probably will put into motion plans for the absorption of the Pittsburgh & West Virginia and Delaware, Lackawanna & Western companies. Addition of these lines — particularly the Lackawanna—would mean a controlled traffic outlet to New York and the rich adjacent territory, with competitive advantages not now available.

Mr. Young, whose mastery of the complicated Alleghany situation after the Van Sweringen debacle, is one of the outstanding feats of modern financial history, has surrounded himself with railroad executives who not only understand their business from every aspect but who know all about the delicate job of perfecting mergers along the most beneficial lines.

Looking Ahead to Foreign Trade

(*Continued from page* 699)

right grant to Britain, or loans on exceptionally easy terms may be regarded by others as a signal to ask for the same treatment, this the more so as some of the other countries represent far better credit risks than Britain. But certainly there can be no question of our making large-scale grants, or non-interest or very low interest loans, to all the rest of the world.

As to Britain, the outlook now favors an eventual agreement acceptable to both sides. The fundamental goal is to restore world trade to a profitable and expanding basis.

Even so, the road to freer trade —so vital to our own economy— will be slow and full of obstacles. We may still face new and greater impediments in our postwar commercial policies. These may not become fully apparent in the next few years, for during that period the world trade situation will be dominantly influenced by the strong import demands of many countries, primarily from the United States. This being so, they are unlikely to handicap their position by undue trade restrictions. However, as their situation improves, underlying trade restrictions may then become increasingly operative. Unless such tendencies are modified or temered in time, world trade may be marked by wider use than prewar of all kinds of restrictive or discriminatory arrangements such as selective import permit systems, restrictive exchange controls, trade-diverting preferences and discriminatory unilateral arrangements.

Hence much spade work remains to be done to pave the way for free, multilateral trade after the war. It will be a complex task, chiefly to be tackled at the forthcoming international commercial policy conference. All planning for the latter has been postponed pending the outcome of the Anglo-American talks in Washing-

ton. But already, many nations are attempting to maneuver into advantageous bargaining positions prior to the convening of the conference.

Points to be clarified and settled are numerous. They include high import duties, quota systems exchange controls, bilateral trading and clearing arrangements, outright trade preferences, Governmental bulk buying, state trading and state directed trading, all practices directly opposed to the concept of free multilateral trade championed by this country.

Replacing Lend-Lease

In the last analysis, the fundamental economic and political patterns arising from the war are virtually certain to dictate the final agreements. For the moment, the most pressing problem is that of finding substitute means replacing Lend-Lease aid. Without such means, postwar trade will be seriously hampered and world recovery can be neither speedy nor assured. In negotiating such arrangements, the Lend-Lease debt owed to us is an important bargaining point that will be used to the utmost to enlist the help and cooperation of other countries toward elimination of trade barriers. While the Lend-Lease debt will largely be forgiven, we shall do so only if trade restrictions are lifted. Essentially, finding a substitute for Lend-Lease means shifting over to large-scale foreign credits but unless these are ultimately repaid, either in money or goods and services, the financial drain imposed on our national economy would hardly be justifiable. Hence our effort to combine credits with practical moves towards freer and broader world trade; only a vigorous revival of two-way trade will enable our debtors to pay us back, if not in money then in goods or services.

During operation of Lend-Lease, we have built up an annual export trade of over $14 billion, in contrast to a level of less than $3 billion prior to the war and some $5 billion in 1941. Almost two-thirds of the record-breaking 1944 export volume — see appended tables — went to the United Kingdom and Russia, chiefly in the form of Lend Lease; something like 80% of total exports consisted of Lend-Lease aid to the United Nations.

If substitute methods of trade financing were not found, there would be little prospect of ever again approaching anything like this export volume, yet we cannot do without a vastly greater than prewar foreign trade volume unless we prefer to deal with problems of permanent unemployment at home and serious price declines especially of our agricultural products. Dealing with such problems, experience proves, is always expensive, quite apart from the important sociological aspects which certainly cannot be minimized.

Foreign trade is bound to play a vital role in our postwar economy. Pressures to restrict it are strong and vigorous efforts to overcome them are necessary. Fortunately we are holding strong cards that promise success in our effort towards constructive international commercial relationships. Without the latter there can be no prosperous and peaceful world. Without sound foreign trade, our own postwar prosperity would be short-lived.

Opportunities in Bonds and Preferreds

(*Continued from page* 719)

freight and passenger cars.

The bonds in question are secured by a first mortgage on the company's two principal plants and are outstanding in the amount of $7,255,000. The latter figure gives effect to the retirement last July of $1,000,000 of the issue, at the call price of 102½. After July 1, 1947, the call price drops to 100. Over the past six years fixed charges have been covered on the average of better than three times. Although the company's business is subject to erratic fluctuations, prospects at this time are favorable for a sustained volume of production and profits over the next two years or longer, as the railroads replace and renew badly worn rolling stock.

The company's balance sheet at the end of 1944 revealed a good financial position. Total current assets were in excess of $14,000,000 and included cash of $6,425,000, while current liabilities were only $4,400,000. Plants and equipment were carried at net value of $16,048,000. The bonds qualify as a business man's investment.

As I See It!

(*Continued from page* 689)

ments that are considered democratic in the western meaning of the term. Boundary questions are also perplexing. Russia in turn is objecting to Anglo-American intervention in former enemy countries where she has been asserting her influence. As a result, the London conversations now seem deadlocked, with Russia enjoying a distinct diplomatic edge.

Having declined to recognize the political regimes of Rumania and Bulgaria, the United States and Britain can hardly negotiate peace settlements with these countries until internal conditions there have been changed to their satisfaction. Russia, anxious to maintain full control in these areas, can and does counter this by opposing a settlement with Italy, by raising demands which can be used as bargaining counters in the diplomatic game of making the most of her bargaining strength.

Fact is that the first great peace conference has been going quite badly and it is something that permits neither unrealistic optimism nor indifference, for the decisions that eventually will be made will have a vital bearing on the shape of the world of tomorrow. It stands to reason that if the Big Five cannot see eye to eye on fundamentals, agreements on secondary issues mean little. Let's hope that subsequent council meetings will benefit from the lessons learned.

Will Commodities Again Reflect World Markets?

(*Continued from page* 707)

The real problem is one of transportation. The ports of Europe have not been able to handle much bulk grain and highway and rail transportation were very limited. Even in the United States there have been a number of embargoes placed on grain shipments at terminal elevators as well as at the ports. Production in the two exporting nations in North America this season will be about 40 percent larger than the pre-war average. The United States crop is the largest on record.

Prices in the United States are being supported by purchases by the Commodity Credit Corp. This indicates a higher level of prices in the next few months. As soon as the Southern Hemisphere crop moves to market, the world price should start to decline. Materially lower prices are likely in 1946 when Europe harvests its first post-war crop.

The supply of feed grains in the United States this year will be the largest on record. The corn crop is slightly below a year ago but is offset by a large oats crop and a large carryover of grain compared with last year. The domestic demand, on the other hand, will be smaller than a year ago.

After an initial price reaction which will occur when the new corn crop moves to market next month, prices should hold up better than those of the bread grains. The export demand for feed grains will be very large in the next twelve months since Europe is striving to rebuild their depleted flocks and herds.

There is a shortage of fats and oils in the United States as well as in the world. The worst of the situation has been seen and a gradual improvement is likely from now on. It will be 6 to 9 months before any price decline is likely.

Once a decline in price sets in it will be quite drastic. Lacking outside supplies, many countries have tried to make themselves self-sufficient. Once the Pacific Islands are back on an export basis there will be a world surplus of fats and oils. This will be accentuated by the greatest whale catch on record in the next year or two. Europe utilizes whale oil for edible as well as soap-making purposes.

The world supply of cotton is far above the world demand at the present time. The world supply of free cotton is about in line with the world demand. The difference between the two totals represents the amount kept off the market through Government action.

Cotton is in a more vulnerable position than any other agricultural commodity. Due to political action, prices in this country are more than 5 cents a pound above world levels. No price decline is possible in the next few months since the Government raises its purchase price 5 points every month.

The artificial level at which American cotton is selling is stimulating production in other countries, particularly in South America. The high price is also encouraging the use of substitute fibers. The longer we attempt to maintain cotton prices at artificially high levels the sharper will be the decline. Regardless of price trends in the United States, world cotton prices should trend downwards within the next few months.

World sugar supplies in 1945 are the smallest since the start of the war. The carryover of world stocks was lower in 1943 and 1944 while this year's crop in Cuba was small. The European crops were much smaller last year. Supplies in 1946 will be somewhat larger than this year but will continue short of demand at present prices. World sugar prices will be higher in 1946 and it will be well into 1947 before supply and demand are again in balance.

Crude rubber prices will remain at a relatively high level for some time. We will receive some shipments from the Dutch East Indies and Malaya this year but it will be some time before shipments return to their pre-war volume. Europe will probably outbid the United States for the first shipments, for they are very short while we have a large production of synthetic rubber. Regardless of the fact that our output of the later is now far above our pre-war consumption of crude rubber, we will import a large quantity. Our synthetic product is still inferior to crude rubber for most uses.

All in all, the conclusion is justified that it may be a long road to truly free commodity markets especially where surpluses are the key factor in the outlook. Domestically, markets and prices for agricultural commodities will mainly be influenced by Government action and policy which as in the past will tend to limit price fluctuation and perpetuate the two-price system to maintain our exports. In many commodities such as wheat, rubber, cotton, tin and others, international commodity agreements rather than natural demand and supply factors will govern not only price but commodity movements in important degree. In the broader field of industrial raw materials, on the other hand, cost factors held down by wartime price controls would appear to preclude any nearby price recession even where surplus problems exist. The natural tendency there is for at least well sustained prices and possibly advancing prices to ameliorate cost-price squeezes once controls are lifted.

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